

The Commonwealth of Massachusetts: Auditor's dept.

DEPARTMENT OF THE AUDITOR

# ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1952

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THOMAS J. BUCKLEY  
STATE AUDITOR

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

For the

FISCAL YEAR ENDING JUNE 30, 1952

I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1951 to June 30, 1952.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1952.

Personnel: As of June 30, 1952, the permanent Civil Service staff of this office included eight World War I veterans, sixteen World War II veterans and eight non-veterans.

Mr. Joseph A. Davey of Brookline was promoted to Semi-Senior Accountant by competitive Civil Service examination.

Mrs. Rose A. Chester of Belmont and Mrs. Lillian M. Thomas of New Bedford resigned from the service of the Commonwealth.

Mr. James W. Nawn of Worcester, Semi-Senior Accountant, retired on October 31, 1951.

The following permanent Civil Service appointments were made during the year:

Miss Doris Corcoran of Boston to Junior-Clerk-Typist

Mr. John C. Dimitrakis of Roslindale to Junior Accountant

New Audit: During the fiscal year, the first audit of the following agency was completed:

Lowell Textile Institute Research Foundation

In addition to the above, three special audits were required during the fiscal year:

Danvers State Hospital - Special Cash Audit

Taunton State Hospital - Special Cash Audit

University of Massachusetts - Special Cash Audit

Recommendation: We feel it necessary to emphasize comments contained in the individual audit reports of the Commission on Administration and Finance and the Department of Corporations and Taxation insofar as they relate to financial transactions between the Commonwealth and the cities and towns. Examination of these reports will immediately disclose that such financial transactions are controlled by the Commonwealth, and that such control has been exercised solely -- and to an unfair degree -- for the benefit of the Commonwealth and to the detriment of the local cities and towns.

The report on the Commission on Administration and Finance shows that more than \$19,000,000.00 was owed to the cities and towns on June 30, 1951 in reimbursement of local treasuries for sums paid out by them for public welfare, public health, veterans services and education. While it is true that the local governments will eventually receive all of this money, the fact remains that the delay in reimbursement of such large expenditures have a harmful effect upon the cash position of the cities and towns involved, and often necessitates temporary borrowings by local governments at interest costs which are not reimbursed by the Commonwealth.

The comments contained in the report of an audit made of the Department of Corporations and Taxation demonstrate the fact that the Commissioner of Corporations and Taxation, as a result of extremely inaccurate estimates of income that will accrue to the cities and towns from the receipt of corporation and income taxes, has caused unnecessary fluctuations in local tax rates, and that in addition to these poor estimates, the Commissioner has been extremely reluctant to make distributions of such income to the cities and towns within a reasonable time after they are deposited in the Agency Fund. It would appear that a more businesslike arrangement to govern these transactions could be provided by the General Court.

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

SCHEDULE OF REGULAR AUDITS COMPLETED		FISCAL YEAR 1951-1952		Report
Department or Institution	From	To	No.	
Governor and Council:				
Aeronautics Commission	June 6, 1951	Apr. 4, 1952	52-85	
Alcoholic Beverages Control Commission	June 5, 1951	Jan. 28, 1952	52-60	
Armory Commission	Sept. 6, 1950	Sept. 17, 1951	52-19	
Art Commission for the Commonwealth	May 9, 1951	Apr. 29, 1952	52-113	
Ballot Law Commission	May 8, 1951	Apr. 29, 1952	52-112	
Civil Defense Agency	Mar. 19, 1951	Apr. 8, 1952	52-94	
Commission Against Discrimination	Apr. 27, 1951	Apr. 25, 1952	52-108	
Commission on Administration and Finance	July 1, 1950	June 30, 1951	52-38	
Commission on Alcoholism	Mar. 8, 1951	Feb. 21, 1952	52-71	
Commission on Uniform State Laws	May 8, 1951	May 29, 1952	52-111	
Commissioner of Veterans Services	Dec. 14, 1950	Feb. 19, 1952	52-65	
Commissioners to Revise, Recodify, Consolidate and Arrange the General Laws	Mar. 26, 1951	Mar. 11, 1952	52-80	
Emergency Housing Commission	Apr. 28, 1948	Jan. 7, 1952	52-50	
Military Division of the Executive Department	Sept. 6, 1950	Sept. 17, 1951	52-18	
Military Reservation Commission	Sept. 6, 1950	Sept. 17, 1951	52-20	
Milk Regulation Board	Nov. 6, 1950	Nov. 20, 1951	52-35	
Outdoor Advertising Authority	Jan. 8, 1951	Feb. 12, 1952	52-64	
Port of Boston Authority	Aug. 14, 1950	Aug. 13, 1951	52-8	
Public Bequest Commission	May 9, 1951	May 13, 1952	52-119	
Soldiers' Home in Chelsea	Sept. 14, 1950	Sept. 4, 1951	52-11	
Soldiers' Home in Holyoke	June 25, 1951	May 12, 1952	52-132	
State Library	May 11, 1951	May 5, 1952	52-117	
State Planning Board	Mar. 14, 1951	Feb. 12, 1952	52-67	
State Racing Commission	Nov. 9, 1950	Dec. 3, 1951	52-39	
State Superintendent of Buildings	Nov. 6, 1950	Jan. 2, 1952	52-45	
Secretary of the Commonwealth:				
General Department	Sept. 18, 1950	Aug. 27, 1951	52-14	
Commission on Interstate Co-operation	Nov. 2, 1950	Apr. 24, 1952	52-104	
Treasurer and Receiver-General:				
General Department	Dec. 4, 1950	Dec. 10, 1951	52-44	
Emergency Finance Board	Mar. 31, 1951	Jan. 2, 1952	52-47	
Public Buildings Commission	Oct. 2, 1950	Nov. 1, 1951	52-32	
State Board of Retirement	Jan. 1, 1951	Dec. 31, 1951	52-129	
Attorney General				
	Nov. 15, 1950	Jan. 14, 1952	52-52	
Department of Agriculture:				
General Department	Oct. 9, 1950	Oct. 15, 1951	52-36	
Division of Livestock Disease Control	Nov. 6, 1950	Nov. 19, 1951	52-34	
Division of Milk Control	Oct. 9, 1950	Oct. 22, 1951	52-27	
Department of Banking and Insurance:				
Division of Banks	Nov. 29, 1950	Jan. 22, 1952	52-55	
Division of Insurance	June 5, 1951	Apr. 24, 1952	52-105	
Division of Savings Bank Life Insurance	Nov. 27, 1950	Jan. 2, 1952	52-46	
Supervisor of Loan Agencies	May 1, 1951	June 12, 1952	52-135	
Department of Civil Service and Registration:				
General Department	Feb. 26, 1951	Apr. 4, 1952	52-86	
Architects, Board of Registration of	Sept. 25, 1950	Sept. 11, 1951	52-16	
Barbers, Board of Registration of	Apr. 13, 1951	Apr. 24, 1952	52-103	
Certified Public Accountants, Board of Registration of	May 28, 1951	June 16, 1952	52-140	
Chiropody, Board of Registration in	May 17, 1951	June 4, 1952	52-139	
Dental Examiners, Board of Registration of	June 15, 1951	Apr. 3, 1952	52-90	
Electricians, State Examiners of	May 21, 1951	May 13, 1952	52-120	
Embalming and Funeral Directing, Board of Registration in	June 7, 1951	Apr. 14, 1952	52-98	
Hairdressers, Board of Registration of	Oct. 3, 1950	Oct. 30, 1951	52-31	
Medicine, Board of Registration in	Oct. 17, 1950	Nov. 9, 1951	52-33	
Nursing, Board of Registration in	Oct. 17, 1950	Nov. 9, 1951	52-42	



Department or Institution	From	To	Report No.
Department of Civil Service and Registration (Continued):			
Optometry, Board of Registration in	Apr. 4, 1951	June 2, 1952	52-137
Pharmacy, Board of Registration in	May 1, 1951	May 9, 1952	52-110
Plumbers, Board of State Examiners of	June 11, 1951	May 22, 1952	52-136
Professional Engineers and Land Surveyors, Board of Registration of	Apr. 4, 1951	June 5, 1952	52-138
Veterinary Medicine, Board of Registration in	June 11, 1951	Mar. 31, 1952	52-87
Department of Conservation:			
General Department	Apr. 12, 1951	May 19, 1952	52-124
Fisheries and Game, Division of	Apr. 12, 1951	May 19, 1952	52-123
Department of Corporations and Taxation:			
General Department	July 1, 1950	July 2, 1951	52-2
Appellate Tax Board	Jan. 31, 1951	Mar. 11, 1952	52-75
Division of Accounts	Apr. 25, 1951	Apr. 28, 1952	52-114
Department of Correction:			
General Department	Mar. 26, 1951	Mar. 11, 1952	52-76
Reformatory at Concord	Dec. 12, 1950	Feb. 13, 1952	52-61
Reformatory for Women	Apr. 16, 1951	Apr. 22, 1952	52-102
State Farm at Bridgewater	July 10, 1950	July 9, 1951	52-3
State Prison	Apr. 10, 1951	May 15, 1952	52-126
State Prison Colony	May 3, 1951	Feb. 6, 1952	52-63
Department of Education:			
General Department	May 22, 1951	May 8, 1952	52-122
Bradford Durfee Technical Institute	Mar. 19, 1951	Jan. 3, 1952	52-48
Division of the Blind	Oct. 2, 1950	Jan. 7, 1952	52-49
Lowell Textile Institute	Aug. 28, 1950	Aug. 7, 1951	52-10
Lowell Textile Institute Research Foundation	Nov. 14, 1950	Feb. 21, 1952	52-51
Maritime Academy	June 4, 1951	May 9, 1952	52-133
New Bedford Textile Institute	May 14, 1951	Apr. 14, 1952	52-99
School Buildings Assistance Commission	Apr. 23, 1951	May 16, 1952	52-128
School of Art	June 4, 1951	May 27, 1952	52-127
State Teachers College at Bridgewater	Aug. 16, 1950	Aug. 1, 1951	52-7
State Teachers College at Fitchburg	June 12, 1951	May 8, 1952	52-121
State Teachers College at Framingham	May 14, 1951	Apr. 10, 1952	52-96
State Teachers College at Lowell	Nov. 27, 1950	Oct. 8, 1951	52-23
State Teachers College at North Adams	Apr. 16, 1951	Mar. 24, 1952	52-79
State Teachers College at Salem	Jan. 16, 1951	Mar. 31, 1952	52-83
State Teachers College at Westfield	May 15, 1951	Apr. 28, 1952	52-107
State Teachers College at Worcester	Nov. 22, 1950	Feb. 7, 1952	52-62
Teachers' Retirement Board	Jan. 1, 1951	Dec. 31, 1951	52-69
University of Massachusetts at Amherst	Oct. 31, 1950	Oct. 16, 1951	52-28
University of Massachusetts at Amherst, Special Cash Audit		Dec. 31, 1951	52-53S
University of Massachusetts at Fort Devens	Oct. 9, 1950	Jan. 23, 1952	52-59
Industrial Accident Board	May 14, 1951	Apr. 24, 1952	52-100
Department of Labor and Industries:			
General Department	Dec. 11, 1950	Apr. 22, 1952	52-101
Division of Employment Security	May 21, 1951	May 9, 1952	52-109
Labor Relations Commission	May 7, 1951	May 22, 1952	52-118
Legislature:			
Sergeant-at-Arms	Apr. 11, 1951	Mar. 14, 1952	52-81
Special Commission on the Structure of the State Government	Mar. 30, 1951	June 9, 1952	52-134
Department of Mental Health:			
General Department	July 13, 1950	Aug. 27, 1951	52-13
Belchertown State School	Feb. 26, 1951	Jan. 28, 1952	52-56
Boston Psychopathic Hospital	Feb. 1, 1951	Feb. 7, 1952	52-66
Boston State Hospital	Jan. 16, 1951	Mar. 26, 1952	52-84
Danvers State Hospital	Dec. 11, 1950	Dec. 6, 1951	52-41
Danvers State Hospital, Special Cash Audit		Mar. 26, 1952	52-91S
Foxborough State Hospital	Sept. 20, 1950	Sept. 20, 1951	52-21
Gardner State Hospital	Aug. 1, 1950	Aug. 6, 1951	52-9
Grafton State Hospital	Oct. 2, 1950	Oct. 23, 1951	52-30
Medfield State Hospital	Mar. 21, 1951	Mar. 3, 1952	52-77



Department or Institution	From	To	Report No.
Department of Mental Health (Continued):			
Metropolitan State Hospital	May 31, 1951	Jan. 28, 1952	52-57
Monson State Hospital	Sept. 1, 1950	Aug. 20, 1951	52-12
Myles Standish State School	Oct. 23, 1950	Oct. 10, 1951	52-24
Northampton State Hospital	July 10, 1950	July 9, 1951	52-5
Taunton State Hospital	Dec. 21, 1950	Nov. 21, 1951	52-26
Taunton State Hospital, Special Cash Audit		Mar. 31, 1952	52-92S
Walter E. Fernald State School	Oct. 16, 1950	Jan. 21, 1952	52-54
Westborough State Hospital	Mar. 1, 1951	Feb. 11, 1952	52-68
Worcester State Hospital	Dec. 4, 1950	Dec. 3, 1951	52-40
Wrentham State School	Feb. 8, 1951	Apr. 7, 1952	52-93
Metropolitan District Commission	Sept. 5, 1950	Sept. 17, 1951	52-17
Department of Public Health:			
General Department	Sept. 11, 1950	Oct. 15, 1951	52-25
Lakeville State Sanatorium	Sept. 15, 1950	Sept. 12, 1951	52-15
North Reading State Sanatorium	Nov. 13, 1950	Sept. 20, 1951	52-22
Pondville State Hospital	Feb. 13, 1951	Mar. 25, 1952	52-88
Rutland State Sanatorium	Apr. 16, 1951	Apr. 15, 1952	52-97
Westfield State Sanatorium	Apr. 24, 1951	Mar. 31, 1952	52-89
Department of Public Safety	Nov. 29, 1950	Nov. 21, 1951	52-37
Department of Public Utilities	Mar. 12, 1951	Apr. 3, 1952	52-70
Department of Public Welfare:			
General Department	Jan. 25, 1951	Mar. 24, 1952	52-82
Massachusetts Hospital School	Jan. 1, 1951	May 26, 1952	52-125
Tewksbury State Hospital and Infirmary	Dec. 11, 1950	Oct. 17, 1951	52-29
Department of Public Works:			
General Department	Apr. 3, 1951	Apr. 28, 1952	52-106
Registry of Motor Vehicles	July 5, 1950	July 2, 1951	52-1
State Airport Management Board	Feb. 12, 1951	Apr. 14, 1952	52-95
Supreme Judicial Court:			
Board of Bar Examiners	July 1, 1950	June 30, 1951	52-73
Clerk for the Commonwealth	May 15, 1951	Apr. 30, 1952	52-115
Reporter of Decisions	May 17, 1951	May 2, 1952	52-116
State Board of Probation	Mar. 6, 1951	Feb. 25, 1952	52-72
Youth Service Board:			
General Department	Nov. 6, 1950	Dec. 26, 1951	52-43
Industrial School for Boys	May 25, 1951	May 21, 1952	52-130
Industrial School for Girls	May 9, 1951	June 9, 1952	52-131
Lyman School for Boys	July 19, 1950	July 9, 1951	52-4

## REGISTRY OF MOTOR VEHICLES

REPORT No. 52-1

Refunds of Fees Account of Applications for Licenses to Operate Motor Vehicles:  
Previous audit reports have stated:

"At present applicants file applications, together with the fee of \$6.00, with the examiner at the examination point. The \$6.00 covers the examination fee of \$2.00 and the license fee of \$4.00 covering two years. Should the applicant pass the examination, he receives a temporary license and a permanent license is mailed to him later. If the applicant fails in his examination, the license fee of \$4.00 is refunded to him in cash by the examiner. The same arrangement applies in re-examinations, except that the re-examination fee is \$1.00, so that the applicant deposits \$5.00 instead of \$6.00. It is again recommended that the Comptroller's Bureau review the routine of handling fees and provide some method that will eliminate the present practice of refunds being made by the examiners."

No action has been taken on this recommendation, but a new position has been established and classified as "Supervisor of Special Services - Driver Licenses" and the duties of the Supervisor will be to standardize methods and procedures at all of the examination places.

Deposit in Lieu of Insurance: Chapter 346 of the Acts of 1925 provided that in lieu of taking compulsory liability insurance an applicant for registration of a motor vehicle could deposit with the Department of Public Works cash or collateral with a market value of not less than \$5,000.00. The records of such deposits were kept in the Division of Highways. Chapter 571 of the Acts of 1949 changed this and provided that the deposit of \$5,000.00 is to be made with the State Treasurer. The only record the Registry keeps of such transaction is the certificate issued by State Treasurer to the applicant, which is attached to application for registration of a motor vehicle. It is again suggested that a register be kept showing such deposits.

Cash Overages and Shortages: The sum of \$2,000.00 is advanced to the Cashier from the Chief Accountant's advance to clear overages and shortages in income at the Boston and branch offices. On July 2, 1951, there was being carried in this account a net shortage of \$1,381.75, an analysis of which follows:

Status of Shortages Paid from Cashier's  
\$2,000.00 Advance and Overages Paid into  
the Advance as of July 2, 1951

## Shortages Paid from Advance:

Branch Offices	\$1,993 63	
Bank Deposit Shortage (Boston)	11 00	
Boston Office	363 41	
Counterfeit Money Made Good	41 50	
Bad Check	1 00	
	<hr/>	
Total Shortages Cleared		\$2,410 54

Less:

## Overages Paid into Advance:

From Branch Offices	\$433 80	
From Over and Short Account	590 49	
From Mail Room	4 50	
	<hr/>	
Total Overages		1,028 79

Net Shortage (Should be Appropriated)		<u>\$1,381 75</u>
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Reconciliation

Cash on Hand, July 2, 1951	\$ 464 25
Advances Paid to Tellers for Petty Cash	154 00
	<hr/>
Net Shortage	1,381 75
	<hr/>
	\$2,000 00

This account has not been cleared by appropriation since 1939, and the above shortages and overages represent an accumulation of over twelve years, during which time the receipt for Registry Income amounted to close to \$106,000,000.00 including the Boston Office. Receipts of Boston alone amounted to approximately \$42,500,000.00. It is recommended that the necessary steps be taken to clear these shortages.

**Split Cash Sheets:** All fees collected are recorded daily on serially numbered cash sheets, twenty-five numbers to a sheet. The serial numbers and the calendar year are printed on all cash sheets. These serial numbers are assigned to the various branches each year and thus provide the bookkeeping division with a control over income.

The term "split sheet" is applied to cash sheets not completed at the end of a business day. At the close of business on Friday of each week all cash sheets, both completed and incomplete are supposed to be sent in to the Boston office by all branch offices and all income is to be deposited in the several banks. The incomplete numbers on each sheet are supposed to be stamped on blank sheets and used in order.

It was understood that sixteen branch offices and North Adams were using split sheets on the date of audit, while four were not following the prescribed method. These branches were writing in the unused numbers, instead of using a number stamp, and in some cases writing in only the first and last number. One branch has been splitting passenger and truck sheets only, and this branch has been splitting sheets at the close of business on Thursday instead of Friday.

It is suggested that a uniform system of handling split sheets be put into effect at all branch offices immediately. The use of these blank cash sheets eliminates much of the effectiveness of the accounting control.

**Uniformity of Procedure:** A manual of Definitions, Fees, and Procedures has been prepared and distributed to the various employees of the Registry. It is understood that the purpose of the manual was to create a uniformity of procedure and to minimize the possibility of error.

**Reconciliation of Cash at Branch Offices:** Previous audit reports have included the following comment:

"The rules and regulations provided that the manager of each branch office is to personally balance the cash twice a month and file a report of such cash reconciliation with the Chief Accountant, however, this rule has in many cases not been adhered to. Apparently it has not been the practice to have a representative of the Boston office visit the branch offices and make an independent reconciliation of the cash. It is suggested that this be done periodically."

It was learned that branch offices have been visited by representatives of the Boston office, who balanced cash at the time of these visits. Each office was visited at least once during the fiscal year just ended. A special report form used for reconciling cash was filed with the Chief Accountant in the Boston office. It was also noted that the manager of the branch offices had been instructed to balance cash twice monthly and had been provided with standard forms to be used for that purpose.

**Cashier's Office - Rebate and Refund Advance Fund:** The two previous audit reports have stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the Fund.

"This has not yet been done and the suggestion is, therefore, repeated. About \$150,000.00 passed through this account during the previous calendar year, and it would appear that the amount is sufficiently large to warrant the use of a cash book in which to record advances received and total disbursements by schedule number, with monthly balancing. Inclusive check numbers should be entered as applying to each respective schedule and individual receipts or disbursements should also be entered. Such a cash book would bring all activities of this fund into a single record."



This suggestion not having been adopted, attention is again called to it.

1949 Number Plates Continued in Use for 1950: In this connection the previous audit report stated:

"Section 2 of Chapter 90 of the General Laws provides that the Registrar shall furnish two number plates to each person whose motor vehicle is registered under said Chapter 90. Chapter 470 of the Acts of 1949 amended Section 2 of Chapter 90 of the General Laws and referring to number plates reads in part as follows:

'The number plates so furnished shall, except as provided by section nine, and except in case the registrar for any valid reason extends the time, be valid only for the year which they are issued. If the registrar extends the time he may make rules and regulations requiring the display of visible evidence upon every motor vehicle that it has been registered and that the plates in use thereon are valid. Any plate becoming illegible because of construction defects shall be replaced by the registrar without cost.

"Acting under this Chapter, the Registrar authorized the use of the 1949 number plates for the year of 1950 and provided a so-called sticker to be pasted on the windshield of the motor vehicle. Prior to the 1950 year there was one set of cash sheets for passenger cars and one set for trucks, the cash sheets contained 25 lines, each serially numbered and the number appearing against the name of the person registering the motor vehicle was the same as the number plate furnished him. For the 1950 year the serial numbers printed on the cash sheets are 'Financial Transaction' numbers and these numbers correspond with the serial numbers printed on the 'Stickers' which are furnished persons registering a motor vehicle in 1950 that had been registered in 1949. A person registering a motor vehicle for the first time in 1950 received two number plates and also a 'sticker'.

"The applications for registration of motor vehicles are filed in numerical order by plate numbers and the entries on the cash sheets begin under 'Financial Transaction' numbers makes the auditing of these plates difficult."

It now appears that the Registrar will authorize the use of 1951 number plates for the calendar year 1952. He will also make provisions for the use of a so-called "sticker" and serially printed numbered cash sheets with headings, "Financial Transactions", "Licenses" and "Miscellaneous."

Because there will be no license plates under 1952, the accounting control will lose much of its effectiveness. It is believed, however, that the four types of cash sheets used in a normal year will prove helpful. It is also suggested that multi-colored printed serially numbered stickers to distinguish the various types of motor vehicles registered be used.

Theft at the Malden Office of the Registry of Motor Vehicles: In this connection the previous audit report stated:

"The Malden office of the Registry of Motor Vehicles located at 122-124 Exchange Street, Malden, was broken into sometime between 12:20 P.M. on December 26, and 8:20 A.M. on December 27, 1949. In addition to certain rubber stamps, the following items were stolen:

- 11 Bates numbering machines
- 21 Sets of passenger plates



- 2,000 Numbered registration stickers  
(929,001-931,000)
- 1,000 (Approximately) unnumbered registration  
stickers
- 300 Official 1949 inspection stickers

"All items stolen were recovered in February 1950 and are being retained by the Malden Police Department for evidence when and if an arrest is made. It was understood that the person alleged to have committed the theft has been indicted by the Grand Jury."

Attention is called to the fact that the foregoing items were returned to the Malden branch by the Malden Police on April 12, 1951. A copy of a letter dated April 13, 1951 from the Hearings Officer at the Malden Branch to the Registrar described the disposition of the case and listed the returned property.

**Duplicate Plate Applications:** It is suggested that the records of duplicate plate orders be divided into three sections - dealers' plates, passenger and truck plates, for which a fee is charged, and all other types of plates for which no fee is charged. It is further suggested that the duplicate plate form used be serially numbered by the printer.

**Duplicate Registrations and Licenses:** It is suggested that the present method of handling duplicate registration and license fees be reviewed with the idea of simplifying the procedure.

**Record of No Fees Charged:** It is suggested that a separate record be kept of all "no fee" items, including registrations, licenses, renewal licenses, etc.

**Application Files:** It is recommended that any application removed from the files be replaced by a requisition form identifying the person making the withdrawal. The requisition should also bear the date and the time of withdrawal, the purpose for which the application was withdrawn, as well as an authorization of the section head responsible for the files.

**Internal Check of Certain Fees:** It is understood that applications received and processed by the Mail Section and by the Express Section are not checked for correctness of fees by the Checking Section. It is suggested that all applications received be rechecked.

**Index Sheets - Issue Dates:** Index sheets recording dates of receipt of fee for Passenger, Truck, Licenses, and Miscellaneous applications are prepared by the Checking Section. The sheets are in serial number sequence, and the date is entered by Checking Section personnel. For the 1950 plate year the dates were entered in pencil or ink and it was practically impossible, in many cases, to determine the exact date. It is suggested that if the date were entered by rubber stamp, the possibility of confusion might be reduced.

**Cross References - Tractor Applications:** It is suggested that every application for registration of a tractor - part of a semi-trailer unit - show the registration numbers of all semi-trailers with which it is to be used. It is further suggested that all semi-trailer applications show thereon tractor application numbers with which they are to be used because the fee for a tractor - part of semi-trailer units - is based, in part, on the weight of the heaviest semi-trailer with which it is to be used.

**Validating Stamps on Applications:** Several of the semi-trailer fleet applications examined, as well as other types of applications, did not show the validating stamp of the Registry clerk or teller. It is suggested that each application should bear such identification.

**Erasures of Fees Entered on Applications:** When an incorrect fee is noted, it should be crossed out and the correct fee written in. Any corrections of fees written in should also be approved by a person in authority.

## DEPARTMENT OF CORPORATIONS AND TAXATION

## GENERAL DEPARTMENT

REPORT No. 52-2

**Tax Distribution to Cities and Towns:** Early in each calendar year the Commissioner of the Department of Corporations and Taxation is required to give to each city and town of the Commonwealth an estimate of the amount that each can expect that year from distribution of revenue from income and corporation taxes.

This estimate is included on the so-called "Cherry Sheets" issued by the department. The revenue thus accrued is distributed between the Commonwealth and the cities and towns on the following basis:

- 1) **Income taxes:** With the exception of \$1,500,000 retained by the Commonwealth as Public Service Tax receipts, all funds received from these sources, less the State's cost of collection, are distributed to the cities and towns.
- 2) **Corporation taxes:** This income is divided roughly -- 1/6 to the Commonwealth and 5/6 is distributed to the cities and towns.

The importance of an accurate estimate of this distribution to the cities and towns cannot be overstated, since the estimate is a prime factor in determining the tax rates of 351 cities and towns. An underestimate results in excessive tax rate and, while an overestimate may result in a lower rate for the particular year, it will balloon the rate for the following year and thereby result in needless and damaging fluctuations in tax rates.

In Audit Report No. 2595 issued by this department on July 14, 1949, attention was called to the fact that the estimate which the Commissioner had given to the cities and towns of the 1949 distribution was approximately 30% lower than the revenue that would actually accrue. Our estimate proved correct and a full distribution was later made to the cities and towns of the Commonwealth.

Further similar and substantial variations have been noted between the Commissioner's estimate and the amount actually distributed to the cities and towns. In 1949 the distribution finally exceeded the Commissioner's estimate by \$27,719,322.72, while in 1950 the Commissioner's estimate exceeded the distribution by \$13,144,494.98.

Our examination this year was hampered and extended by the Commissioner's refusal to make available to this department certain pertinent records which would have considerably shortened our work. Despite this lack of cooperation, however, our examination has disclosed that the Commissioner's "Cherry Sheet" estimates issued early this year to the cities and towns indicated that \$55,002,012.52 would be distributed from these two revenue sources. Actually as of the date of this audit, the Commissioner has distributed \$68,146,507.50, and in addition, on September 30, 1951, there was an additional \$9,864,490.30 available in these funds which had not been distributed.

Attention is directed to the fact that the Commissioner's estimate for this year amounts to \$3,853,493.50 less than the actual 1950 distribution and his estimate is difficult to understand since it was made early this year at a time when incomes, both corporate and private, were rising substantially. It now appears that the Commissioner's estimate will be approximately \$24,000,000 short of the amount actually available for distribution.

The following schedule demonstrates the wide variations between the Commissioner's estimates and the actual distributions for the last three years:

	1949		
	Income Tax	Business Corporation Tax	Total
Commissioner's Estimates	\$29,040,919 00	\$26,000,000 00	\$55,040,919 00
Actual Payments to Cities and Towns	39,919,078 07	42,841,163 65	82,760,241 72
Underestimate	<u>\$10,878,159 07</u>	<u>\$16,841,163 65</u>	<u>\$27,719,322 72</u>
Per cent of Payment to Estimate	<u>137.4%</u>	<u>164.7%</u>	<u>150.3%</u>

<u>1950</u>			
	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$35,000,000 00	\$37,000,000 00	\$72,000,000 00
Actual Payments to Cities and Towns	<u>31,995,153 71</u>	<u>26,860,351 31</u>	<u>58,855,505 02</u>
Overestimate	<u>\$3,004,846 29</u>	<u>\$10,139,648 69</u>	<u>\$13,144,494 98</u>
Per cent of Payment to Estimate	<u>91.4%</u>	<u>72.5%</u>	<u>81.7%</u>
<u>1951</u>			
	<u>Income Tax</u>	<u>Business Corporation Tax</u>	<u>Total</u>
Commissioner's Estimates	\$30,002,012 52	\$25,000,000 00	\$55,002,012 52
Actual Payments to Cities and Towns	<u>39,006,858 81</u>	<u>29,139,648 69</u>	<u>68,146,507 50*</u>
Underestimate	<u>\$9,004,846 29</u>	<u>\$4,139,648 69</u>	<u>\$13,144,494 98</u>
Per cent of Payment to Estimate	<u>130.0%</u>	<u>116.5%</u>	<u>123.8%</u>

\* Does not include \$9,864,490.30 available for distribution on September 30, 1951.

Accounts Receivable - Unpaid Taxes: An analysis of the accounts receivable balances of the department show the following taxes due the Commonwealth as of November 30, 1950:

<u>Name</u>	<u>Amount</u>
Income Taxes	\$1,543,637 76
Domestic Corp.	2,075,853 98
Foreign Corp.	274,317 69
Inheritance	810,383 40
Estate	02
Gasoline	1,929,191 67
Diesel Engine Fuel	3,364 13
Savings Bank Deposit	10,662 38
Motor Carriers Tax	(7 41)
Savings Dept. Trust	(10)
Insurance Premiums	14,411 58
Life Insurance Excise	5 68
Savings Bank Life Insurance	162,473 95
Marine Profits Insurance	6 92
National Bank	974 44
Trust Company	2,268 77
Finance Company	29 47
Gas and Elec. Light Company	62 53
Railroad Company	255,981 42
Telephone and Telegraph Company	368 82
Club Alcoholic Bev.	12,845 34
Excise Alcoholic Bev.	211,349 43
Cigarette Excise	171,391 03
Cigarette License Retail	(310 00)
Cigarette License Unclass. Imp.	(1 00)
Cigarette License Vending Mach.	100 00
Cigarette License Vending Mach. Oper.	(85 00)
Cigars and Tobacco	(12,988 60)
Old Age Excise (Meals)	211,121 62
Motor Vehicle Excise	82,125 24
	<u>\$7,759,535 16</u>



Abatements - Miscellaneous Taxes: Attention is called to the fact that for each of the past six years which were audited, abatements of miscellaneous taxes totaled in excess of \$5,000,000.00. In this connection the following is shown:

<u>Twelve Month Ended</u>	<u>Assessments</u>	<u>Abatements</u>	<u>Per Cent</u>
November 30, 1945	\$ 97,685,257 80	\$ 5,571,129 81	5.7
1946	135,261,675 82	6,495,446 50	4.7
1947	140,326,744 14	5,077,973 03	3.6
1948	169,050,753 77	6,407,324 23	3.8
1949	172,239,096 62	9,907,379 11	5.8
1950	176,692,273 68	10,576,836 40	5.9

It will be noted that these abatements practically doubled themselves during these six years.

Because of the fact that statutes specifically preclude any examination of the individual abatements, the figures in the above statement have been accepted without verification.

It is understood that these abatements have been allowed through many channels, e.g., the Appellate Tax Board, the various courts, the Commissioner of Corporation and Taxation and/or the Directors of any one of the several divisions within the department, and it is believed that a great percentage of these items have been occasioned by the system which allows for arbitrary assessments under certain conditions. In this connection it can only be presumed that, since post audit is forbidden, the several safeguards, provided by a system of internal control, have been exercised.

**Income Tax Assessments:** Prior to the 1946 income tax, assessment warrants were prepared in the Assessing Section of the Income Tax Division and sent to the Collector's Office, together with the individual taxpayers' bills. The bills were entered on the ledger cards and then mailed by the Collector's Office. Beginning with the 1946 year, the preparation of warrants in the Assessing Section was discontinued and the assessments were established in the Collector's Office, (subject to verification) from the taxpayers' return coupons in those cases where the taxpayers' enclosed full or partial payments with the tax return.

Under the present arrangement, the coupons are processed for cash, are sorted, and then sent to the nineteen ledger clerks, who list on warrants the amounts set up as assessments, which are subject to verification. These warrants are entered in so-called master books, and in subcontrol ledgers. In order to set up an approximate record of accounts receivable in the department financial report as of any June 30, the income tax and corporation tax assessments were anticipated and the estimated figures entered in the control ledgers as of June 30. The figures were properly adjusted at the time of certification of the total assessments of the business corporation excise taxes in September of each year. At the time of the final establishment of the income tax assessment subject to verification, on September 1st of each year these taxes were also properly adjusted.

Chapter 816 of the Acts of 1950 provided that income taxes and business corporation taxes would be payable in full at time of filing the tax returns, March 1 for income taxes and April 10 for corporation taxes. This chapter was amended by Chapter 750 of the Acts of 1951 to provide that income taxes would become payable in full on April 15th. In the future therefore it will be possible to determine the actual amounts of assessments in both cases in time for the June 30 financial report.

In cases where tax returns are received without remittances, the returns are segregated and sent to the Assessing Division which subsequently and prior to June 15 sends assessment warrants on such cases to the Collector's Office, together with any additional assessments resulting from a review of the tax returns.

It was understood that the reason for the change in the system was occasioned by the inability of the Assessing Section to get the assessment warrants and the taxpayers' bills to the Collector's Office by September 1, the date the bills were apparently required to be mailed.

However, regardless of the reasons, it is stated that from an accounting point of view assessments should not be established in Collector's Office.

Also, under the present arrangement it is difficult, if not impossible, to get an independent verification of the assessments as a basis of audit.

Annual Transfer of \$1,500,000.00 from Income Tax Collections to General Revenue: It was noted that beginning with the 1935 year and through the 1950 year the sum of



\$1,500,000.00 of income tax collections were paid over to the State Treasurer as Public Service Tax receipts and credited to general revenue. This transfer of income tax collections to general revenue was made under the provisions of Chapters 307 and 357 of the Acts of 1933. The pertinent sections of said chapters read as follows:

Section 9 of Chapter 307 of the Acts of 1933 as amended by Section 1 of Chapter 285 of the Acts of 1943 reads:

"Section 9. Income received by any inhabitant of the Commonwealth during the years nineteen hundred and thirty-three, nineteen hundred and thirty-four, and nineteen hundred and thirty-five from dividends on shares in all corporations, joint stock companies and banking associations, organized under the laws of this commonwealth or under the laws of any state or nation, except co-operative banks, building and loan associations and credit unions chartered by the commonwealth and except savings and loan associations under the supervision of the commissioner of banks, and income received by any inhabitant of the commonwealth during the years nineteen hundred and thirty-six, nineteen hundred and thirty-seven, nineteen hundred and thirty-eight, nineteen hundred and thirty-nine, nineteen hundred and forty, nineteen hundred and forty-one, nineteen hundred and forty-two, nineteen hundred and forty-three, nineteen hundred and forty-four, and nineteen hundred and forty-five from such dividends, other than stock dividends paid in new stock of the company issuing the same, shall be taxed at the rate of six per cent per annum. Inhabitant of the commonwealth shall include (a) estates and fiduciaries specified in sections nine, ten, thirteen, and fourteen of chapter sixty-two of the General Laws, (b) partnerships specified in section seventeen of said chapter sixty-two and (c) partnerships, associations or trusts, the beneficial interest in which is represented by transferable shares, specified in paragraphs entitled, First, Second and Third of subsection (c) of section one of said chapter sixty-two. Except as otherwise provided in this section, the provisions of said chapter sixty-two shall apply to the taxation of income received by any such inhabitant during said years. Subsection (b) of section one of said chapter sixty-two shall not apply to income received during said years."

Section 4 of Chapter 357 of the Acts of 1933 reads, as follows:

"Section 4. Section eighteen of Chapter fifty-eight of the General Laws shall not apply to any taxes upon dividends made taxable by this act and not heretofore taxable under said chapter sixty-two, which taxes shall be retained by the commonwealth; but said section eighteen shall continue to apply to taxes upon dividends taxable under this act which have heretofore been taxable under said chapter sixty-two. Notwithstanding the provisions of section eleven of chapter three hundred and seven of the acts of the current year, the proceeds of all taxes collected by the commonwealth under section nine of said chapter on dividends on shares in all corporations and joint stock companies organized under the laws of any state or nation other than this commonwealth, except banks which are subject to taxation under section two of chapter sixty-three of the General Laws, which dividends were made taxable by said section nine and were not taxable prior to the effective date of said chapter three hundred and seven, shall be retained by the commonwealth."

Section 9 of Chapter 307 of the Acts of 1933 discontinued the income tax exemptions provided in the last clause of Section 1 (b) of Chapter 62 of the Tercentenary Edition of the General Laws, which reads in part as follows:

"...and except such foreign corporations as are subject to a tax upon their franchises payable to the commonwealth under section fifty-eight of chapter sixty-three."

It was understood that the amount of \$1,500,000.00 was based on the amount of taxes paid prior to the 1933 year by a certain foreign telephone corporation whose dividends became taxable on the passage of Chapter 307 of the Acts of 1933, which act was passed after the foreign telephone company in question discontinued the payment of a franchise tax.

**Annual Closing of Taxpayers' Ledgers:** It has been the practice to take annual trial balances of the taxpayers' ledgers as of close of business November 30, but beginning with June 30, 1951 the annual trial balances will be taken as of the close of business June 30.

**Trial Balances of Accounts Receivable, November 30, 1950 - Income Taxes:** It was noted that the balance in the control account, the subcontrol accounts and the nineteen master books were in agreement as of November 30, 1950 and of the nineteen taxpayers' ledgers, eleven were in agreement with the master book for the 1950 tax year. Considering the taxpayers' ledgers for the tax years prior to the 1950 tax year, one ledger was in complete agreement and eighteen were out of agreement as follows:

1 Ledger	2 Tax Years Out of Balance
1 Ledger	3 Tax Years Out of Balance
2 Ledgers	4 Tax Years Out of Balance
2 Ledgers	5 Tax Years Out of Balance
6 Ledgers	6 Tax Years Out of Balance
3 Ledgers	7 Tax Years Out of Balance
3 Ledgers	8 Tax Years Out of Balance

However, it should be stated that many of the variances in the earlier years are the same differences noted as of November 30, 1949.

**Trial Balances of Accounts-Receiveable, November 30, 1950 - Miscellaneous Taxes:** The balances as of November 30, 1950 reflected by the control accounts were in agreement with the balances shown by the master books for all types of taxes except Domestic Corporation Taxes. The balances shown by the taxpayers' ledgers as of November 30, 1950 were in agreement with the balances reflected by the master books except in the cases of Domestic Corporation Taxes, Inheritance Taxes and Motor Vehicle Excise Taxes.

**Verification of Outstanding Accounts Receivable:** A total of 1,319 verification notices were sent out on balances outstanding November 30, 1950 and remaining unpaid July 2, 1951. Of this total, 1,009 notices were for income tax accounts and 310 for miscellaneous tax accounts. A large number of notices were returned by the Post Office as being unable to deliver.

**Distribution of Collections of Business Corporation Excise Taxes:** The distribution of gross collections of business corporation taxes were checked by formulae reflecting the statutory provisions. The following corrections were found necessary as a result of this audit.

1)	<u>Debit</u>	
2705-03-02-40	Extra Tax on Business Corporations (General Fund 1 1/2%)	\$ 4,078 76
6930-03-01-37	Business Corporation Tax (Agency Fund)	6,797 93
	<u>Credit</u>	
3500-03-01-40	Business Corporation Tax (Veterans' Fund)	10,876 69
2)	<u>Debit</u>	
6930-03-01-37	Business Corporation Tax (Agency Fund)	10,643 02
	<u>Credit</u>	
2705-03-02-40	Additional Business Corporation Tax (General Fund)	5,321 51
3500-03-01-40	Business Corporation Tax (Veterans' Fund)	5,321 51

		<u>Debit</u>	
3)	6930-03-01-37	Business Corporation Tax (Veterans' Fund)	\$ 5,397 56
		<u>Credit</u>	
	2705-03-02-40	Extra Tax on Business Corporations (General Fund)	5,397 56

The refunds of collections and payment of abatements were tested for six months.

The present routine used in computing the distribution of the revenue to the various statutory funds is cumbersome and time consuming. It could be reorganized with a considerable saving of time. Important information and data concerning these distributions are kept on work sheets.

It is suggested that the following permanent records be set up and maintained according to the accepted standards of accounting practice and procedure:

1. Accounts reflecting the collection of taxes levied on:
  - (a) Corporation excise
  - (b) Taxable income of corporations

The apportionment of the revenues collected from corporate excess taxes to the various statutory funds differs, by law, from the amounts allocable to these funds and others from the revenue collected on taxable income. Therefore, this information should be recorded in separate and distinct accounts.

2. A systematic and chronological record of revenue distributed to the various statutory funds, the transfers in and out of these funds, and adjustments made to correct the respective balances. The importance of these accounts lies in the principle of internal check. They could then be readily reconciled with those of the Comptroller.
3. Journals reflecting the detailed data supporting the entries in the above accounts.  
Just as important as the recording of gross collections is the recording of refunds of collections and payments of tax abatements now summarized on work sheets. A journal, similar to the cash journal now used for gross collections, should be used to record refunds of collections and payments of abatements. This record should include references to checks issued in payment and abatement certificates, etc., authorizing such payments.

Referring to the reorganization of the routine of computing distribution of collected revenue to statutory funds, it is suggested that a chart listing factors representing decimally the proportional part allocable to various funds be used along with a calculating machine. Such a chart, devised and used by the auditors in checking these distributions is available to the department.

Miscellaneous Taxes, Assessments and Abatements: The previous audit report stated:

"Some difficulty was experienced in verifying the assessments and abatements entered in the control ledger from the records in the several sections. It is suggested that a uniform method be established, namely, that abatement slips sent to the collector's office be accompanied by a schedule which will show a total and that after this total has been verified to the individual abatement slips, it will be the basis of entry in the control account. This arrangement is now in effect for income taxes and has proved satisfactory."

It was noted that this suggestion has been adopted.

Meals Tax Abatements: The previous audit report stated:

"These abatements are granted by the Director of Meals Taxes and many of them result from additional taxes assessed following an audit of the accounts



of the particular eating place. Apparently Chapter 64B of the Tercentenary Edition of the General Laws, which is the authorization for the meals tax, is silent as to abatements, consequently, it would seem that abatements should be sent to Appellate Tax Board for final approval."

It was noted that this suggestion has been adopted.

For convenience it has been decided that abatements granted under Chapter 58, Section 27, of the Tercentenary Edition of the General Laws may be applied to outstanding meals tax to start on July 1, 1951.

Accounts with Attorney General for Collection: The Collector of Taxes in the Department now has authority, in all types of taxes except Inheritance Taxes, to issue demands and warrants for the collection of taxes, consequently, the only types of taxes now with the Attorney General for collection are Inheritance Tax cases.

The records in the Collector's office showed that as of November 30, 1950 there were 393 cases with the Attorney General for collection of which 148 cases totaling \$49,119.22 were abated on June 6, 1951 by the Appellate Tax Board as being uncollectible. An effort was made to check the remaining cases with the records in the office of the Attorney General, and 123 accounts could not be located. A list of such cases was given to the Collector's office with the suggestion that they be resubmitted.

An analysis of the cases shown by the records in the Collector's office as being with the Attorney General follows:

### Inheritance Tax

#### Analysis of Accounts in Hands of Attorney General

November 30, 1950

#### Cases Abated June 6, 1951

<u>Year</u>	<u>Number of Cases</u>	<u>Balances</u>	<u>Number of Cases</u>	<u>Amount</u>
1949	2	\$ 811 79	-	-
1947	1	211 11	-	-
1946	1	71 67	-	-
1945	6	530 44	-	-
1944	11	2,377 22	-	-
1943	20	2,411 19	-	-
1942	15	1,210 36	-	-
1941	16	2,423 55	-	-
1940	16	4,802 04	-	-
1939	11	4,729 08	-	-
1938	12	2,070 62	-	-
1937	11	4,267 34	1	\$ 377 85
1936	8	1,568 46	-	-
1935	6	1,007 57	1	42 85
1934	14	3,109 76	4	774 79
1933	25	5,076 67	14	2,024 22
1932	21	6,122 15	12	4,060 98
1931	23	8,714 31	9	6,586 26
1930	29	8,295 72	15	2,411 89
1929	23	3,805 27	16	2,623 48
1928	12	3,643 51	9	1,694 81
1927	29	4,777 35	18	3,064 10
1926	16	13,468 75	6	12,022 63
1925	25	7,968 90	16	5,071 95
1924	14	5,471 55	10	5,180 83
1923	14	1,551 53	9	1,007 14
1922	2	324 94	2	324 94
1921	5	746 90	3	696 67
1920	1	420 85	-	-
1919	-	-	-	-
1918	1	973 74	1	973 74
1916	1	117 87	1	117 87



1912	1	\$ 320 55	-	-
1893	1	62 22	1	\$ 62 22
	<u>393</u>	<u>\$103,464 98</u>	<u>148</u>	<u>\$49,119 22</u>

Inheritance Taxes - Active Accounts Receivable: The active accounts receivable were analyzed as of November 30, 1950. This analysis follows:

Inheritance Taxes  
Analysis of Active Accounts Receivable Balances  
November 30, 1950

Year	Debits		Credits	
	Number of Cases	Balance	Number of Cases	Balance
1950	417	\$313,844 13	40	\$ 4,425 50
1949	181	90,417 16	16	7,386 62
1948	105	68,595 77	10	2,732 85
1947	90	19,755 32	4	21,074 35
1946	61	19,732 31	-	-
1945	41	21,121 41	1	9,660 11
1944	23	3,581 45	1	1,267 86
1943	21	6,348 51	-	-
1942	11	2,280 17	-	-
1941	12	3,046 60	-	-
1940	4	1,742 23	1	171 30
1939	23	5,951 01	-	-
1938	9	3,541 16	-	-
1937 & Older	22	16,234 58	2	18 28
	<u>1,017</u>	<u>\$753,995 81</u>	<u>72</u>	<u>\$46,737 07</u>

It is suggested that these accounts be reviewed and those on which the department has exhausted all means of collection be referred to the Attorney General.

Vendors' Invoices for Repairs Incomplete: An examination of the charges to the expense a/c of the Income Tax Division for the 1950 fiscal period indicated that approximately \$7,500.00 was spent for electrical repairs and \$3,500.00 for carpenter work repairs. In connection with the above repair bills, it was noted that the charges for materials were itemized but the charges for labor were recorded only in terms of total hours, hourly wage rates, and total labor charges. It would appear that the dates and the number of hours of work performed on the respective dates should be submitted by the vendor in support of the labor charge on all invoices for repair work.

This matter has been brought to the attention of the division, and it is understood that beginning August 1, 1951 all invoices for repairs will be supported by a detailed statement of its labor charge.

Contingent Liability - Reimbursement of Loss of Taxes: In compliance with Section 16 of Chapter 58 of the General Laws, the Commissioner submitted to the State Treasurer on August 1, 1950 the Annual Statement as to the value of land owned by the Commonwealth on January 1, 1950 for the purposes named in Section 13 of Chapter 58 of the General Laws in each city or town, and of the amount of money to be paid to each of such cities or towns based on the rate of reimbursement as determined by Section 17 of Chapter 58 of the General Laws. In view of the fact that a decision was rendered by the Superior Court on December 7, 1949, which resulted in a more liberal interpretation of what constituted a public institution within the meaning of Section 13 of Chapter 58, the Commissioner considered State Armories and State Teachers Colleges to be public institutions and included them for the first time in the above Annual Statement. The invoice warrant on which were listed the monies due the above cities and towns was returned to the Commissioner by the Comptroller's Bureau with the request that any amounts on account of land not included in such distributions prior to January 1, 1950 be removed in view of the fact that the Legislature in the Acts of 1950 provided appropriations only for monies due on parcels of land listed prior to January 1, 1950. Item #1205-01 of Chapter 580 of the Acts of 1950 reads as follows:

## Reimbursement of loss of taxes:

- 1205-01 For reimbursing cities and towns for loss of taxes on land used for state institutions and certain other state activities as certified by the commissioner of corporations and taxation for the calendar year nineteen hundred and fifty, and for the reimbursement of certain towns as authorized by section seventeen B of chapter fifty-eight of the General Laws, to be in addition to any amount heretofore appropriated for the purpose; provided, that on and after January one, nineteen hundred and fifty the commissioner shall not include in any distribution under this item any amounts on account of land not included in such distributions prior to January one, nineteen hundred and fifty, unless specifically so authorized by legislative act.
- ..... \$250,000 00

The commissioner accordingly submitted an amended invoice warrant omitting State Armories, State Teachers Colleges and a few parcels of land acquired by the Department of Conservation from the Metropolitan District Commission for recreational purposes subsequent to January 1, 1949.

The payment of the amended warrant by the State Treasurer results in \$92,656.51 appearing on the books of the cities and towns as monies due from the Commonwealth by reason of the Commissioner informing the cities and towns annually of the amounts due them by the Commonwealth to assist them in determining their annual tax rate. Below is a schedule of the balances due the various cities and towns on June 30, 1951 chargeable to appropriation account #1205-01.

Contingent Liability on Cities and Towns for Loss of Taxes on Land Used for  
Public Purposes and Certain Other State Activities for the Calendar  
Year - 1950

City or Town	Valuation of Land	Amount Due
Adams - Armory	\$ 15,000 00	\$ 662 40
Amherst - Univ. of Mass.	152,000 00	6,712 32
Ashland - Land Used for Recreational Purposes	49,800 00	2,199 17
Attleboro - Armory	4,400 00	194 30
Boston:		
Armory	\$676,300 00	
Mass. School of Art	98,800 00	34,228 42
Bridgewater - State Teachers College	52,500 00	2,318 40
Brockton - Armory	8,100 00	357 70
Cambridge - Armory	77,500 00	3,422 40
Chelsea - Armory	15,100 00	666 82
Clinton - Armory	3,000 00	132 48
Concord - Armory	2,000 00	88 32
Edgartown - Parks and Recreation	500 00	22 08
Everett - Armory	7,500 00	331 20
Fall River:		
Armory	\$29,250 00	
Bradford Durfee School	17,350 00	2,057 86
Fitchburg:		
Armory	\$20,000 00	
Teachers College	40,000 00	2,649 60
Framingham:		
Armory	\$13,600 00	
State Arsenal	25,000 00	
Teachers College	38,200 00	
Land Used for Recreational Purposes	4,700 00	3,599 04
Gloucester - Armory	6,600 00	291 46
Greenfield - Armory	3,000 00	132 48
Haverhill - Armory	10,200 00	450 43
Hingham - Armory	3,000 00	132 48

Holyoke - Armory		\$ 12,500 00	\$ 552 00
Hopkinton - Land Used for Recreational Purposes		27,200 00	1,201 15
Hudson - Armory		2,000 00	88 32
Lawrence - Armory		14,200 00	627 07
Lowell:			
Armory	\$11,100 00		
Teachers College	53,400 00		
Textile Institute	86,900 00	151,400 00	6,685 82
Lynn - Armory		15,800 00	697 72
Malden - Armory		7,500 00	331 20
Marlborough - Armory		3,900 00	172 22
Methuen - Armory		3,000 00	132 48
Milford - Armory		10,000 00	441 60
Natick:			
Armory	\$ 2,100 00		
Com. Depot and Motor Park	5,400 00		
Land Used for Recreational Purposes	16,800 00	24,300 00	1,073 09
New Bedford:			
Armory	\$17,900 00		
Textile Institute	8,800 00	26,700 00	1,179 07
Newton - Armory		16,500 00	728 64
North Adams:			
Armory	\$9,000 00		
Teachers College	8,000 00	17,000 00	750 72
North Attleborough - Fish Hatchery		3,900 00	172 23
Northampton - Armory		4,000 00	176 64
Norton - Miles Standish Division		10,000 00	441 60
Norwood - Armory		17,100 00	755 14
Oak Bluffs - Park and Recreation		5,100 00	225 22
Orange - Armory		2,000 00	88 32
Pittsfield - Armory		7,200 00	317 95
Plymouth - Armory		7,000 00	309 12
Quincy - Armory		22,000 00	971 52
Salem:			
Armory	\$15,800 00		
Teachers College	13,800 00	29,600 00	1,307 14
Sandwich - Camp Edwards		11,400 00	503 42
Somerville - Armory		20,000 00	883 20
Springfield - Armory		22,700 00	1,002 43
Stoneham - Chronic Disease Hospital	\$16,500 00		
Armory	9,400 00	25,900 00	1,143 74
Taunton:			
Miles Standish Division	\$74,600 00		
Armory	7,000 00	81,600 00	3,603 46
Wakefield:			
Armory	\$12,500 00		
Camp Curtis Guild	3,000 00	15,500 00	684 48
Waltham - Armory		4,200 00	185 47
Wayland - Land Used for Recreational Purposes		3,700 00	163 39
Westfield:			
Armory	\$ 7,000 00		
Teachers College	12,000 00	19,000 00	839 04
Woburn - Armory		15,000 00	662 40
Worcester:			
Armory	\$40,000 00		
Teachers College	25,900 00	65,900 00	2,910 14
Totals Unpaid Balance		<u>\$2,098,200 00</u>	<u>\$92,656 51</u>



Reconciliation

Original Invoice Warrant	<u>\$13,961,400 00</u>	<u>\$616,535 40</u>
Amended Invoice Warrant -	\$11,863,200 00	
1st Payment 12/29/50		\$430,000 00
2nd Payment 6/ 8/51		93,878 89
	<u>\$11,863,200 00</u>	<u>\$523,878 89</u>
Unpaid Balance	<u>2,098,200 00</u>	<u>92,656 51</u>
	<u>\$13,961,400 00</u>	<u>\$616,535 40</u>

## STATE FARM AT BRIDGEWATER

REPORT No. 52-3

Accounts Receivable: It was noted that the amount of \$60.00 due from a former employee which was referred to the Attorney General for collection is part of the active Accounts Receivable Account. It is suggested that this account be transferred to a Suspense Accounts Receivable Account.

House and Room Rent: It was noted that the charges for house and room rent which were computed and charged on a weekly basis created variances which for the audit period were in certain instances, 16 cents to \$3.34 less than they should have been. It is recommended that the weekly rates be revised and that any overcharge or undercharge be adjusted in the final week of the fiscal year. This matter was brought to the attention of the institution treasurer and it is understood that necessary adjustments will be effected.

Farm Profits: The farm profit for 1950 was \$5,279.46 as compared with a loss of \$14,088.76 reported in 1949. This improvement in the farm fiscal condition is largely due to a substantial increase in farm production in 1950.

Patient's War Savings Bond: It was noted that a \$25.00 War Savings Bond belonging to a deceased patient is still on hand. As there is no record of any "next of kin" information should be obtained relative to the disposition of this bond.

Inmates' Valuables: It was noted that bankbooks belonging to nine discharged inmates were still on hand. It is recommended that the necessary steps be taken to dispose of them.

## LYMAN SCHOOL FOR BOYS

REPORT No. 52-4

Farm Records: The previous audit report stated as follows:

"The farm report for the 1949 farm year had not been compiled to date of audit, consequently these accounts were not examined."

This report was examined in connection with the current examination. It was noted that the farm costs as shown on the farm report did not agree with the farm costs as shown on the financial report. This variance was attributed to a great extent to items having been coded as "farm" at the time of preparing the invoice, and subsequently not being taken into consideration on the farm report. This condition seems to be brought about in part by the inability of the institution employees to apply the existing set of code classifications relating to the farm to the invoices. As the agreement between these two sets of records hinges on the accurate interpretation of which items are "farm" and which are not, it is recommended that an effort be made to include in the farm accounts only these items which are so chargeable. If there is a code number applying to an account which includes other items as well as farm; that such accounts be divided on the records into "farm" and "other".

Attention is further called to the fact that the 1950 farm report had not been compiled on July 9, 1951. It would seem to be reasonable to expect that this report should have been available for audit at this time.

This matter was discussed with the institution Superintendent and he explained that lack of help due to inability to fill a vacant position in the Steward's office accounted for this condition.

## NORTHAMPTON STATE HOSPITAL

REPORT No. 52-5

Materials and Supplies: A test inventory was taken on July 31, 1951. Overages of \$203.29 and shortages of \$3.47 were noted on inventoried items valued at \$51,052.64. During the period under audit overage adjustments aggregated \$1,337.79 and shortage adjustments aggregated \$983.59 in relation to materials and supplies issued, totaling \$574,916.77.

Patients' Funds: It was noted that on July 9, 1951, there was on hand funds of discharged and escaped patients totaling \$973.87, representing account balances of approximately 200 patients; and funds of deceased patients totaling \$1,413.53, representing account balances of 56 patients. It is recommended that the Department of Mental Health issue instructions to the institution as to the proper procedure for the disposition of the aforementioned funds.

## STATE TEACHERS COLLEGE AT BRIDGEWATER

REPORT No. 52-7

Overdue Accounts Receivable: There is an account receivable amounting to \$79.00 due from a former student for semester fees and board.

As this account is several years old it is suggested that it be referred to the Attorney General for disposition.

Accounts Receivable: Attention is called to the fact that the records of accounts receivable during the period under audit were not being maintained in accordance with the instructions outlined in the accounting manual issued by the Comptroller's Bureau. In this connection the following were noted:

(a) No individual records were kept for the recording of items of college income other than that for regular board.

(b) No monthly trial balances of accounts receivable were taken. Because of this the accounts receivable control account in the general ledger was not checked each month to determine whether it was in agreement with the total of the individual outstanding accounts.

(c) In order to determine the composition of the balance shown in the accounts receivable control account as of the date of audit, it was necessary to analyze in detail the transactions affecting the accounts receivable on account of semester, towel and board fees. As a result of this detailed analysis it was noted that several errors had been made in the handling of accounts receivable which involved omission of charges, omission of rebates, and erroneous journal entries for rebates and refunds.

Because of the foregoing it is obvious why the balance of the accounts receivable as shown in the general ledger does not indicate the true balance as of the date of audit.

It is recommended that the errors be corrected forthwith and that the accounts receivable be maintained in the manner outlined by the Comptroller's Bureau in its accounting manual.

Estelle L. Whitney Trust Fund: It was noted that this trust fund has not yet been set up on the books of account as of the date of audit. It is suggested that this fund which has a balance of \$400.00 be set up as soon as possible.

## PORT OF BOSTON AUTHORITY

REPORT No. 52-8

General: The real measure of the success of operations of the Port of Boston Authority lies in the annual figures of tonnage handled by the Port. An examination of these statistics for the last four years shows that in 1948 tonnage declined slightly from 1947, and, while in 1949 there was a further substantial decline, in 1950 the Port regained most of the loss incurred during 1949.

Tonnage handled by the Port for the past four years was as follows:

<u>Year</u>	<u>Total Tonnage</u>
1947	18,502,902



1948	18,317,356
1949	15,363,529
1950	18,194,438

It is obvious that the present national emergency has been largely responsible for the tonnage recovery shown in 1950, and, therefore the total for that year should be discounted in determining future policy with regard to further costly expansion of the Port.

The volume of business handled from year to year by the Port has not been reflected in the pay rolls of the Authority. The number of permanent employees of the Port was increased from 116 in 1948 to 127 in 1949, and there was a further increase to 137 employees in 1950.

This Authority was created to encourage shipping through the Port of Boston by moderate subsidization and for that reason public credit was made available for the purpose of constructing modern piers throughout the harbor. Legislation authorizing such construction generally required that no construction would be initiated unless the planned facility was leased in advance for a period of at least twenty years, and the same legislation also required that the terms of such lease would be based on a rate high enough to insure that the Commonwealth would recover sixty per cent of the total actual cost of construction. Comments included in this report will demonstrate that -

- 1) The Authority has ignored statutory provisions in constructing piers without a twenty-year lease.
- 2) The Authority has granted leases on terms which will not recover sixty per cent of actual costs.
- 3) The Authority has granted free rental of valuable piers over a substantial period.
- 4) The Authority has been negligent in collecting monies due the Commonwealth under various leases.

Deficiency: Despite favorable reports issued by the Authority at various intervals which would seem to indicate that the Port of Boston is being operated at a profit, attention is directed to Schedule No. VIII in this report which demonstrates that if all factors of expense are taken into consideration the Port actually operated under a deficiency of \$1,008,987.71 during the fiscal year ending June 30, 1951, and that the total deficiency from Port operations in a period from July 1, 1946 to June 30, 1951 has amounted to \$2,986,444.31.

In several years the Authority has claimed operating profits whenever income from operations has exceeded maintenance appropriations. During the fiscal year 1951, expenditures from maintenance appropriations exceeded the receipts of the Port for that year by \$118,739.73 as evidenced by the following statement:

#### Expenditures under Maintenance

##### Appropriations:

Administration (See Schedule No. VI)	\$348,315 24
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Maintenance of Property (See Schedule No. VI)	<u>377,211 21</u>
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##### Total Expenditures under Maintenance

Appropriations	\$725,526 45
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Receipts (See Schedule No. VII)	<u>606,786 72</u>
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1951 Deficit in Maintenance	<u>\$118,739 73</u>
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When this deficiency is added to the costs of bond issues the net cost of the Port to the taxpayer for the fiscal year 1951 amounted to \$1,008,987.71.

Bond Account - Boston Harbor Facilities Loan Fund: Section 10 of Chapter 619 of the Acts of 1945 provides in part as follows:

"Section 10. Subject to the conditions herein imposed, for the purpose of purchasing sites and pier locations and for the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer shall, upon



request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the commonwealth registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars....."

The status of the bond account authorized under this act follows:

Bonds Authorized				\$15,000,000 00
Bonds Issued:				
Hoosac Pier and Grain Elevator				
Property:				
Bonds Issued	\$5,000,000 00			
Improved Pier and Grain				
Facilities, East Boston:				
Bonds Issued	3,650,000 00			
Mystic Wharves Property				
Improvements:				
Bonds Issued	600,000 00	\$9,250,000 00		
Bonds Authorized - Not Issued:				
Boston and Albany Piers,				
East Boston	\$3,850,000 00			
Castle Island	1,200,000 00			
Mystic Wharves, Improvements	700,000 00	5,750,000 00	\$15,000,000 00	

Expenditures and Encumbrances under Bond Issue: The State Treasurer in compliance with requests from the Authority has issued bonds totaling \$5,000,000.00 to June 30, 1951 for the "Hoosac Pier and Grain Elevator." The following is a summary of expenditures and encumbrances to June 30, 1951 in this account:

Amount Authorized and Bonds Issued	\$5,000,000 00
Expenditures and Encumbrances	<u>4,953,961 87</u>
Balance Available	<u>\$46,038 13</u>

	<u>Payments</u>	<u>Encumbrances</u>	<u>Total</u>
Purchase of Hoosac Pier	\$1,042,176 00	-	\$1,042,176 00
Purchase of Grain Elevator	100,000 00	-	100,000 00
Personal Services	130,939 48	-	130,939 48
Expenses	34,517 85	\$ 143 99	34,661 84
Contracts*	<u>3,595,940 20</u>	<u>50,244 35</u>	<u>3,646,184 55</u>
	<u>\$4,903,573 53</u>	<u>\$50,388 34</u>	<u>\$4,953,961 87</u>

\*Contracts:

Engineering Services	\$ 90,596 97	\$18,350 93	\$ 108,947 90
Demolition and Removal of			
Grain Conveyor Gallery and			
Pier	17,500 00	-	17,500 00
Test Borings	2,957 86	-	2,957 86
Excavating, Dredging and Filling	368,163 34	-	368,163 34
Construction and Substructure	1,598,010 47	-	1,598,010 47
Demolition of Buildings	1,200 00	-	1,200 00
Battery Charging Building	70,041 17	-	70,041 17
Construction of Superstructure	710,692 81	7,178 72	717,871 53
Repairs to Elevators	682 33	-	682 33
Fire Alarm System	7,627 00	-	7,627 00
Track Well Bridge	10,940 00	-	10,940 00
Roadway	9,455 04	-	9,455 04
Testing Materials	5,860 11	-	5,860 11
Design of Grain Handling			
Facilities	12,721 46	-	12,721 46
Steel for Grain Conveyor	48,322 02	-	48,322 02
Furnishing and Installing Special			
Machinery for Grain Elevator	254,429 13	-	254,429 13

Anchorage System	\$ 89,341 25	\$ 9,883 75	\$ 99,225 00
Furnishing and Erecting Bronze Tablet	1,134 00	-	1,134 00
Furnishing and Installing New Electric System and Flood- lights Pier #1	2,285 00	-	2,285 00
Dredging	13,684 32	-	13,684 32
Installation of Built Up Roof for Grain Elevator	5,845 00	-	5,845 00
Painting and Water Proofing	16,000 00	-	16,000 00
Grain Weighing Scales	11,940 00	-	11,940 00
Alterations and Improvements to the Electric System in Grain Elevator	16,416 75	-	16,416 75
Repair Windows and Drainage System	18,093 99	-	18,093 99
Repairs to Elevators	1,037 00	-	1,037 00
Asphalt Floor Tile	475 00	-	475 00
Cleaning Grain Elevator	4,923 00	-	4,923 00
Fumigating Grain Elevator	4,975 00	-	4,975 00
Installing Steel Chute Gates	974 23	171 92	1,146 15
Installing Electric Power Outlets	3,773 74	1,159 26	4,933 00
Removal of Debris	683 00	-	683 00
Resurfacing Paving	-	2,185 00	2,185 00
Installing Cleaning System	-	7,900 00	7,900 00
Engineering Agreement	3,644 74	-	3,644 74
Lowering of Windows in Grain Elevator	-	550 00	550 00
Steel for Superstructure	191,091 09	-	191,091 09
Expansion Proof Motors	-	2,864 77	2,864 77
Rehabilitation of Trackage	423 38	-	423 38
	<u>\$3,595,940 20</u>	<u>\$50,244 35</u>	<u>\$3,646,184 55</u>

Hoosac Pier Facilities: Section 10 of Chapter 619 of the Acts of 1945 placed the following limitation upon expenditures from funds provided by borrowings for these purposes:

"...no construction, to be paid from the proceeds of the bond issue hereby authorized, shall be done unless the Authority shall have first executed a written contract, approved by the governor, with a responsible party providing for the lease of said property, the minimum requirements of which shall be at a rate sufficient to amortize sixty per cent of the actual cost to the commonwealth of the facilities included in the lease, over a period not to exceed twenty years, which contract may provide that at the expiration of the term of the lease it may, at the option of the lessee, be renewed for a further period of twenty years and provided, further, that no expenditure or commitment from the proceeds of said bond issue in excess of five million dollars shall be made without further authorization by the general court therefor ...."

In connection with the foregoing, previous audit reports have stated:

"The Legislature in this section required a twenty-year lease of planned new construction before such construction is initiated. If such provisions are met by the Port Authority, recovery of at least sixty per cent of public funds so expended is assured, and the section further acts as a curb on unrestrained and non-essential construction.

"The Port Authority, ignoring the provisions of this section, has initiated construction of a new pier to replace the Hoosac Pier and has leased the new pier to a railroad for only five years.

"Evidently there existed some doubt in the mind of the Port Authority as to the legality of this procedure, since on February 8, 1946, the Chairman of the Authority asked the Attorney General the following question:

'May construction to be paid for from the proceeds of a bond issue authorized by Section 10 of Chapter 619 of the Acts of 1945 entitled "An Act Abolishing the Boston Port Authority, establishing a Port of Boston Authority and defining its powers and duties," be done if the Port of Boston Authority shall have first executed a written contract, approved by the Governor, with a responsible party providing for the lease of said property for a term -- for example, five years -- shorter than twenty years and shorter than the maximum term of said bonds -- for example, fifteen years, -- and at a rate sufficient to amortize sixty per cent of the actual cost to the commonwealth, of the facilities included in said lease, over a period not exceeding twenty years?'

"The Port Authority on the strength of a five-year lease has committed public funds to the erection of the pier, and the situation today is further complicated by the fact that the lease signed with the railroad on April 17, 1947, states in part:

'....In no event shall the Commonwealth be required to expend more than the sum of two million, six hundred thousand dollars for the cost of pier facilities.'"

In this connection attention is called to the fact that apparently the cost of the construction of the pier and its facilities was greater than originally estimated, and a new lease was entered into in May 1949, reading in part, as follows:

"Yeilding and paying during said term a rental equal to three per cent of the actual cost of the pier facilities to the Commonwealth as that term is used in Section 10 of Chapter 619 of the Acts of 1945, provided that such actual cost which shall include the cost of acquiring the land shall in no event exceed four million four hundred eight thousand two hundred eighty nine dollars. (\$4,408,289.00)"

The previous audit report again called specific attention to the terms of the lease and indicated in no uncertain terms that the Authority had apparently ignored the provision of the statute and had constructed the facilities and leased the pier to the Boston and Maine Railroad for a term of only five years.

Apparently as a result of this comment the following exchange of correspondence occurred during the period covered by this examination:

COPY

February 27, 1951

....., Esquire  
Boston & Maine Railroad  
Law Department  
North Station  
Boston 14, Massachusetts

Dear Mr. ....:

The Port of Boston Authority is willing to accept your amendment to change certain phraseology in the present approved lease; but the Authority recommends that the clause or clauses relative to the term of the lease be changed to a flat 20-year period so as to conform to the terms of the lease on the Grain Elevator.

Very truly yours,

Assistant Attorney General  
Counsel for the Port of Boston  
Authority



COPY

BOSTON AND MAINE RAILROAD

March 19, 1951

....., Assistant Attorney General  
 Department of the Attorney General  
 State House, Boston 33, Massachusetts

Dear Mr. ....:

In our telephone conversation of March 12, 1951, you requested me to write you if the Boston and Maine Railroad adhered to its views with reference to the amendment of the Hoosac Piers lease.

This is to advise you that the Railroad management entered into the bargain on a five year basis and sees no reason why the bargain should be changed at this date. The Railroad, therefore, is unwilling to amend the Hoosac Piers lease to extend its term.

At the said conference held on March 12, you requested that I draft the Hoosac Elevator Agreement in final form. As I then told you, the drafting of a final form of agreement is a very simple operation. Since the matter of the electric power winches is not completely settled, however, I should think it desirable that we defer drafting the final Elevator agreement until the air is cleared in this regard.

Very truly yours,

General Attorney

COPY

THE COMMONWEALTH OF MASSACHUSETTS  
 DEPARTMENT OF THE ATTORNEY GENERAL  
 STATE HOUSE, BOSTON 33

Francis E. Kelley, Attorney General

April 3, 1951

Board of Commissioners  
 Port of Boston Authority  
 Commonwealth Pier #5  
 Boston, Massachusetts

Gentlemen:

Pursuant to the instructions of the Authority, I conferred with ....., Executive Vice-President, together with other officials of the Boston & Maine Railroad regarding the amendment of the lease covering the Hoosac Pier Facilities.

It was proposed by me that the clauses relating to the term of the pier lease be changed to a flat 20-year period so as to conform and be consistent with the terms of the lease of the Grain Elevator. It was pointed out that the law authorizing the purchase of the pier and its rehabilitation contemplated the amortization of 60% of the cost in a 20-year period and that the 5-year period was not in accordance with the legislative act.

Mr. ...., speaking in behalf of the Boston & Maine Railroad declined to accept the proposed amendment and insisted that the lease be left in its present status with the 5-year tenure.

Enclosed with this report are copies of correspondence relating to this matter. Every effort was made to obtain an amendment to the lease in accordance with the instructions of the Authority.

Respectfully submitted,

Assistant Attorney General  
Counsel for Port of Boston  
Authority

Encl.

Because under the present lease the railroad occupies the pier facilities for a term of only five years and the railroad pays as a rental three per cent per annum of the actual cost, payable in monthly installments, at the termination of the lease, the Commonwealth will only recover fifteen per cent of the actual cost and not sixty per cent as Section 10 of Chapter 619 Acts of 1945 requires. It is interesting to note that the railroad may exercise an option to renew this lease three times for respective terms of five years each. To recapitulate, the Commonwealth has constructed a pier tailored to the specifications and satisfaction of the railroad, yet after five years when the Commonwealth will have recovered only fifteen per cent of its cost, the railroad may within its rights as at present delineated in the present lease, quit the facilities.

The then Attorney General on February 21, 1946 in reply to a question as to the validity of the lease on Hoosac Pier Facilities stated:

"..... While I am of the opinion that said Chapter 619 does not require a lease entered into before beginning construction of a port improvement to be self-liquidating during its term, the possibility cannot be ignored that a different construction might be reached in the event of litigation."

Since it has been pointed out that Chapter 619 of the Acts of 1945 was not adhered to, and the foregoing reply of the then Attorney General was obviously ambiguous, it is therefore recommended that the Department of the Attorney General be requested to furnish an opinion relative to the following:

1. Is the lease between the Authority and the Railroad pertaining to Hoosac Pier Facilities a legal contract?
2. In the above matter what equities of the parties are here involved?
3. What action or non-action should the Authority take?

Hoosac Pier - Computation of Rent: Section 10 of Chapter 619 of the Acts of 1945 stipulates that the rent under the lease shall be at a rate sufficient to amortize sixty per cent of the actual cost to the Commonwealth. It is immediately obvious that "actual cost to the Commonwealth" must include the cost of construction plus all the costs incident to its financing, and this Department insists that the total cost of interest for the entire period while bonds are outstanding is an essential element in any rental computation. In this connection it was noted that the Authority in making this computation included interest costs only to February 28, 1951 amounting to \$190,551.51 while interest for the entire life of these bonds amounts to \$646,682.40. Under the present lease the taxpayers of this Commonwealth will pay the difference, a total of \$456,130.89.

The following schedule shows the amount of the actual interest which should have been added to construction costs for the purpose of establishing rental charges compared with interest actually used by the Authority in their rental computation.

	Total Interest Life of Bonds	87.36* of Col. A.	Interest as Computed by Authority	Difference
Bond Issue of \$1,500,000.00 at 1 1/4%, dated December 1, 1946, Final Maturity December 1, 1966	\$196,875 00	\$171,990 00	\$ 73,125 00	\$ 98,865 00

Bond Issue of \$2,100,000.00  
at 1 1/2%, dated September  
1, 1947, Final Maturity  
September 1, 1967

\$322,875 00      \$282,063 60      \$ 96,447 81      \$185,615 79

Bond Issue of \$1,400,000.00  
at 1 1/2%, dated December  
1, 1948, Final Maturity  
December 1, 1968

220,500 00      192,628 80      20,978 70      171,650 10  
\$740,250 00      \$646,682 40      \$190,551 51      \$456,130 89

\* Total Bond Issue \$5,000,000.00

Total Cost of Pier Facilities \$4,368,010.41 or 87.36% of Total Bond Issue.

As the actual cost to the Commonwealth is the total cost of construction plus all the costs incident to financing this project, it is repeated that it is incumbent upon the Authority to comply with the intent of the statute and it is recommended that the rent to be charged to the railroad be computed on a basis which meets statutory requirements.

It is understood that a conference was held during the month of February 1951 in the State House with respect to the Authority's policies in regard to this lease and the rental computation. In attendance at this discussion were the Commissioner of Administration and Finance, and representatives of the Port of Boston Authority, the State Treasurer, the Attorney General and the Comptroller's Bureau.

It is interesting to note that at this conference no objections were apparently raised by those present with regard to the Authority's proposal for computing and arriving at the cost of the project.

Hoosac Pier - Gratuitous Occupancy: Attention is directed to the fact that the Boston and Maine Railroad was permitted to occupy and use these facilities for seven months at no rental charge. The right of the Port Authority to permit grant free occupancy of facilities belonging to the Commonwealth is seriously questioned particularly in view of the fact that the value of this gratuity would approximate \$75,000.00.

Bond Account, Boston Harbor Terminal Facilities Loan Fund: This fund was established by Chapter 714, Acts of 1941, and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945. Its purpose is to acquire the Mystic Wharves and build a pier and develop a water front terminal.

The following is a summary of activities in this fund to June 30, 1951:

Original Authorization	\$4,700,000 00
Transferred from Boston Harbor Facilities Loan Fund	<u>1,300,000 00</u>
	<u>\$6,000,000 00</u>
Total Bonds Authorized	\$6,000,000 00
Bonds Not Issued	<u>700,000 00</u>
Bonds Issued	\$5,300,000 00
Expenditures and Liabilities	<u>5,145,730 71</u>
Balance	<u>\$154,269 29</u>

The following shows the summary of the analysis of expenditures and encumbrances to June 30, 1951, in this account:

	Expenditures	Encumbrances	Total
Purchase of Land	\$1,345,000 00	-	\$1,345,000 00
Personal Services	77,093 81	-	77,093 81
Expenses	6,458 74	\$ 1,327 49	7,786 23
Contracts	<u>1,467,385 11</u>	<u>2,248,465 56</u>	<u>3,715,850 67</u>
	<u>\$2,895,937 66</u>	<u>\$2,249,793 05</u>	<u>\$5,145,730 71</u>

Contracts:

Architectural and Engineering Services	\$ 109,120 26	\$ 20,557 24	\$ 129,677 50
Submarine Pile Inspection	4,360 00	-	4,360 00



Test Borings	\$ 3,805 28	-	\$ 3,805 28
Driving and Testing Piles	5,689 00	-	5,689 00
Moving Field Office	1,199 00	-	1,199 00
Superstructures	1,280,013 05	\$2,209,451 16	3,489,464 21
Testing Materials	457 25	5,542 75	6,000 00
Furnishing and Installing Fire Nozzle			
Hatches in Deck	10,654 68	-	10,654 68
Substructure Repairs	46,861 22	-	53,155 00
Repairs to Heating and Plumbing System	3,312 87	787 13	4,100 00
Repairs to Exterior Doors	1,912 50	2,587 50	4,500 00
Repairs to Gutters	-	3,246 00	3,246 00
	<u>\$1,467,385 11</u>	<u>\$2,248,465 56</u>	<u>\$3,715,850 67</u>

Purchase of Boston and Albany Piers - East Boston: Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures without further authorization by the general court therefor, from the proceeds of the bond issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceeds."

The following shows the analysis of the disbursements and encumbrances under this account to June 30, 1951:

Bonds Authorized	\$7,500,000 00		
Bonds Not Issued	<u>3,850,000 00</u>	\$3,650,000 00	
Less:			
Payments and Encumbrances		<u>3,663,073 86</u>	<u>(\$13,073 86)</u>
	<u>Payments</u>	<u>Encumbrances</u>	<u>Total</u>
Payments and Encumbrances:			
Purchase of Land	\$3,000,000 00	-	\$3,000,000 00
Personal Services	100,857 95	-	100,857 95
Expenses	16,745 61	\$ 205 90	16,951 51
Contracts	<u>409,368 56</u>	<u>135,895 84</u>	<u>545,264 40</u>
	<u>\$3,526,972 12</u>	<u>\$136,101 74</u>	<u>\$3,663,073 86</u>
Contracts:			
Engineering Agreements	\$162,842 65	\$ 1,694 27	\$164,536 92
Test Borings	1,890 98	-	1,890 98
Renovation of Heating System	951 29	-	951 29
Demolition of Grain Gallery	13,429 81	-	13,429 81
Utility Line Supports	3,965 00	-	3,965 00
Relocating of Electric and Air			
Services	5,414 92	-	5,414 92
Replacing Aerial Cable	535 00	-	535 00
Alterations and Improvements to			
Grain Handling Facilities	220,338 91	128,416 09	348,755 00
Removal and Relocation of Certain			
Communication Lines	-	75 00	75 00
Examination of Structure of Steel	-	5,710 48	5,710 48
	<u>\$409,368 56</u>	<u>\$135,895 84</u>	<u>\$545,264 40</u>

Attention is called to the fact that a lease for these facilities which consist of four piers and one open pier was dated July 1, 1949 and was properly approved by the Governor and Council. As Pier #2 was demolished, the estimated value of the land under or about

the demolished pier was deducted from the purchase price upon which the lessee pays 3% annual rental, on the interim lease, computed as follows:

Cost of Land	\$3,000,000 00
Less:	
Value of Pier #2	175,000 00
Net Cost	<u>\$2,825,000 00</u>
Rental Based on 3% of Net Cost	<u>\$84,750 00</u>

The remaining piers are apparently in good condition and will probably require no major repairs. They are presently in use.

At the expiration of this interim lease which is with the New York Central Railroad - when the Port Authority has completed the new pier - a lease for twenty years (with option for renewal) will become effective. This lease, however, provides for an annual rental of 3% of the cost of the construction, based on the following tentative figures:

Purchase Price	\$3,000,000 00
Value of Commonwealth Lands	145,000 00
Estimated Maximum Cost	<u>4,500,000 00</u>
	<u>\$7,645,000 00</u>

In this connection the following letter dated November 21, 1950 from the Vice-President of the Railroad to the Authority, suggesting certain changes in the aforementioned lease is shown:

COPY

NEW YORK CENTRAL SYSTEM

New York Central Building  
230 Park Avenue  
New York 17, New York

November 21, 1950

Commonwealth of Massachusetts  
Port of Boston Authority  
Commonwealth Pier No. 5  
Boston 10, Massachusetts

Gentlemen:

Under the lease dated July 1, 1949, between the New York Central Railroad Company and the Commonwealth of Massachusetts, acting by the Port of Boston Authority, of the property situated at East Boston, it is provided that the New York Central, as Lessee, shall pay an annual rental equal to 3% of the sum of the total cost of the additions and alterations and the purchase price of the premises together with the value of the Commonwealth property which is included in the lease, commencing with the completion of the said additions and alterations, for a term of twenty years.

Your representatives and representatives of the railroad company from time to time have conferred with reference to the construction of the additions and alterations described in the lease, and because of the high cost that was indicated by the bids you received in September, it was agreed to defer the carrying out of the entire program but to proceed with the proposed improvements to the grain facilities.

At the time the lease was executed, it was estimated that the additions and alterations covering the construction of a new pier No. 1 and the rehabilitation of the grain elevator facilities would cost \$4,500,000, and the lease provides for an expenditure up to this amount with a proviso that, in the event the cost should

exceed such amount, the two parties shall attempt to agree upon a modification of the improvements. The cost of the additions and alterations, on the basis of \$4,500,000., together with the purchase price of the property amounted to \$7,500,000 as the sum upon which the New York Central was to pay 3% as rental, or \$225,000 per annum, but the bids received in September indicated that the total cost for the new pier and the improvement of the grain elevator facilities would be approximately \$9,500,000 to \$10,000,000.

As discussed with your representatives, the New York Central operations would not be able to assume the substantial additional burden represented by 3% on the increased cost indicated by the bids, and unless we are able to obtain a reduction in such rental, we may have to request that the construction of the new Pier No. 1 be postponed indefinitely or until such time as conditions might become more favorable and construction costs become lower so that the ultimate investment by the State will be more nearly the amount called for in the lease.

Taking into account the actual life of the new pier facilities of modern construction, it is our idea that a payment of 3% per annum is unnecessarily high for the purpose of amortizing the State's investment. As we understand it, it is your desire that we endeavor to agree on a plan of procedure so that you may obtain, if possible, the necessary enabling legislation to permit the construction of new pier No. 1 to proceed on the basis of the increased cost. With this objective in mind, we would appreciate your giving consideration to a modification of the existing lease, as follows:

- (1) The State to absorb the cost of improvement in the access roads to the pier property, estimated at \$400,000., by obtaining such funds through State Highway Funds, and eliminate the so-called utility building estimated at \$100,000., so that these items would not be included in the cost of the additions and alterations.
- (2) The amount on which the New York Central would pay rental to be the actual cost of the improvements, excluding the work covered in No. 1, but not to exceed \$9,500,000.
- (3) Lower the rental rate from 3% to 2 1/2%.

After you have given this proposition consideration, if you wish, we would be glad to sit down with you for the purpose of discussing its merits and endeavor to come to some amicable understanding.

Yours very truly,

Under date of September 10, 1951, while the audit was in progress, the following memorandum in this matter was submitted by the Director of this Authority to the Commissioners of the Authority:

FROM John M. Bresnahan, Director September 10, 1951

ATTENTION OF Commissioners of Port of Boston Authority

SUBJECT East Boston Pier Facilities

As per your instructions, I met with Mr. ...., Vice-President, New York Central System, and other officials of the New York Central System at their offices, 230 Park Avenue, New York, New York, relative the construction of new pier facilities in the East Boston section of the City of Boston.

After full discussion of our negotiations during the past two years, it was agreed by all parties that upon my return to Boston, I was to prepare a revised estimate for the construction of the so-called East Boston Pier No. 1.

Items such as the construction of access roads, utility building, widening of roadways between piers, etc., were to be eliminated. The revised estimate



for the construction of the proposed pier is to be submitted to the New York Central System no later than September 24, 1951, so they can determine whether or not we should proceed with the construction of the aforementioned pier.

To the date of audit there have been no major charges for construction purposes at these piers. The expenditures have consisted mainly of engineering items, minor pre-construction work and the modernization of the grain handling facilities.

Hoosac Pier - Additional Work: In this connection the previous audit report stated:

"Apparently after the substructure and superstructure of Hoosac Pier were built certain additional construction was necessary. The following is a copy of a letter to the Commission on Administration and Finance requesting approval for these expenditures:

C O P Y

'The Commonwealth of Massachusetts  
Port of Boston Authority  
Commonwealth Pier No. 5  
Boston 10

February 10, 1950

Commission on Administration and Finance  
State House  
Boston, Massachusetts

Attention: Mr. Thomas H. Buckley, Chairman

Gentlemen:

In accordance with provisions contained in Chapter 29 Section 8A application is herewith made to your Commission for authority to advertise for a period of one week requesting competitive bids for the installation of an anchorage system and appurtenant work at Hoosac Pier No. 1, Charlestown, Massachusetts.

An emergency exists in connection with the pier substructure which is dangerous to the safety and property of the public. Abnormal ground water conditions which were impossible to foresee have created excessive pressure conditions within the filled area causing movement of the steel sheet piling bulkhead.

This condition unless corrected may become progressive and jeopardize the structure as completed for which the Commonwealth has invested the sum of approximately \$5,000,000.00.

Attached hereto for your consideration and approval please find formal request for an expenditure of an estimated sum of \$100,000.00 to cover the cost of this additional work.

Due to the emergency nature of this request your early consideration and decision will be greatly appreciated.

Very truly yours,

Port of Boston Authority

Acting Director'

Approved  
by  
Commission on Administration  
JMB/EFS/rg and Finance  
s/ Thomas H. Buckley  
Thomas H. Buckley  
Commissioner of Administration

(Stamped)

RECEIVED  
ADMINISTRATION AND FINANCE

Feb. 23, 1950  
OFFICE OF THE CHAIRMAN

"In this connection it was noted that the project was properly advertised and a contract in the amount of \$99,225.00 was awarded on February 20, 1950. Construction began on February 23, 1950 and was completed on May 13, 1950."

It was noted that although this contract has been completed for more than one year, the final payment has not yet been made to the contractor, who filed a claim for alleged additional work. It was learned that the engineer for the Authority contended that the work in question was included in the contract.

The entire matter has been referred to the Attorney General for disposition.

**Federal Funds - Port of Boston Authority:** The General Services Administration of the Federal Government agreed to advance the Port of Boston Authority the sum of \$43,987.50 to defray the cost of an original survey, investigation and preparations of preliminary plans on which detailed plans will be based for development of the Castle Island Terminal located in South Boston. There had been received prior to date of audit the sum of \$11,000.00. During the current audit period the balance in accordance with the agreement of \$32,987.50 was received. The total expenditures totaled \$30,250.00 leaving a balance in this fund of \$13,737.50.

The Housing and Home Finance Agency Office of the Administration Community Facilities Service of the Federal Government also agreed to advance to this Authority the sum of \$118,900.00 to defray the cost of preliminary studies, reports, plans and outline specifications for the development of Northern Avenue waterfront facilities. In March 1951, \$29,725.00 was received by the Port of Boston Authority. No expenditures have, as yet, been made from this fund.

**Terminal Operators, Incorporated:** On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal for the handling of commercial cargoes.

Until June 30, 1948, under the terms of the lease the Port Authority was to receive 75% of the net income from operations of the terminal as rental.

A contract dated July 1, 1948 with this corporation provided as follows:

"To Pay the Port Authorities \$1,500.00 per month (base payments) and, in addition to make payments .....after making deductions hereinafter provided for .....equal to the percentages of net income as hereinafter defined, of the licensee from the use and operation of the premises for each full year in force.....

53% of the amount of such net income not in excess of \$60,000.00  
 58% of the amount in excess of \$60,000.00 but not in excess of \$70,000.00  
 65% of the amount in excess of \$70,000.00 but not in excess of \$80,000.00  
 75% of the amount in excess of \$80,000.00"

Under this agreement the following income was reported to the Authority by the corporation July 1, 1950 to June 30, 1951:

Total Revenue by Terminal Operators, Inc.	\$273,520 47
Less:	
Expenses	<u>149,905 24</u>
Net Income	<u>\$123,615 23</u>

On this basis of total net income of \$123,615.23 received by the corporation, the rent computation in accordance with the contract was as follows:

	<u>Total Net Income</u>	<u>Rent Due to Port of Boston Authority</u>
53%	\$ 60,000 00	\$31,800 00
58%	10,000 00	5,800 00
65%	10,000 00	6,500 00
75%	43,615 23	32,711 42
	<u>\$123,615 23</u>	<u>\$76,811 42</u>

In connection with the foregoing the items indicated were checked with the records of the Terminal Operators, Inc. These records were made available only insofar as they were necessary to determine the accuracy of the rent computation.

Attention is further directed to the fact that the rent owing to June 30, 1951 was entirely collected while the current audit was still in process.

Accounts Receivable - New York, New Haven and Hartford Railroad: In reviewing the accounts receivable of this Authority it was noted that the account of the New York New Haven and Hartford Railroad shows an unpaid balance on the date of audit of \$96,310.82 consisting of \$80,000.00 for the rental of the Commonwealth Yards and \$16,310.82 for trackage and electricity charges at Commonwealth Pier No. 5. These outstanding items were explained as follows:

Rental: The annual rent, based on a lease which expired on December 31, 1949 and which has not yet been renewed, was \$74,000.00 payable \$18,500 quarterly. A quarterly payment, however, was made by the railroad after the expiration of the lease in the amount of \$18,500.00. Subsequent to this payment, the railroad through its real estate agent submitted a plan that would lower the rental charge in exchange for deeding certain property on Northern Avenue to the Authority, as is shown by the following copy of a letter from the real estate agent:

July 27, 1950

Mr. John M. Bresnahan, Acting Director  
Port of Boston Authority  
Commonwealth Pier  
Boston, Massachusetts

Dear Mr. Bresnahan:

When we had the conference at your office with Mr. . . . ., representing the New Haven Railroad, and we came to an understanding as to the proposed trade of the Northern Avenue Piers for a contract to occupy Commonwealth Yards, owned by the Port Authority, it was understood that the agreement, if and when it was signed, would take effect as of April 1, 1950 and would run for 20 years, and the rent which the Railroad would pay to the Port Authority for the use of Commonwealth Yards would be \$10,000. a year.

For this reason, Mr. . . . ., who is the chairman of the Land Committee of the New Haven Railroad, thought that instead of sending the Port Authority a check for the rent on the basis of the old contract which expired December 31, 1949, a check based upon the new rental should be sent.

Therefore I enclose check of the New Haven Railroad for \$2500 which is one-fourth of the \$10,000 agreed upon rent.

Of course it is understood that if the transfer of the Northern Avenue piers by the Railroad to the Port Authority is not made, and there is no contract for the lease of the Commonwealth Yards, the matter will revert to its original status and the Railroad Company will pay on the old basis until such time as a new lease is drawn and the new rental established.

Very truly yours,

From March 1, 1950 to June 30, 1951 the rental payments submitted by the railroad have been on the basis of \$10,000.00 per year or \$64,000.00 less than the amount actually charged. It is understood that negotiations in this matter have been going on for more than a year with no apparent direct results.

It is therefore recommended that steps be taken to collect the rent on the former basis until the entire matter is settled.

Trackage Charges: Under the provisions of an agreement dated November 6, 1912, the New York, New Haven, and Hartford Railroad pays the Commonwealth a charge of ten cents a ton on all goods taken by the railroad to and from the South Boston piers. Since December 16, 1948, however no payments have been



made to the Commonwealth on account of these charges which are now in excess of \$16,000.00.

This matter was referred to the Attorney General more than a year ago.

Accounts Receivable - Eatwell Diner, Inc.: On the date of audit there was a check in the possession of the Authority in the amount of \$250.00 which was dated April 29, 1949. The Authority officials explained that it had made repeated attempts to obtain from the Attorney General's Department information regarding the disposition of this item. Under date of September 6, 1951, after the matter had been discussed in connection with the current examination the following letter was received from the Department of the Attorney General, finally authorizing the acceptance of the check in question:

COPY

September 6, 1951

John M. Bresnahan, Director  
Port of Boston Authority  
Commonwealth Pier #5  
Boston, Massachusetts

Dear Mr. Bresnahan:

Re: Eatwell Diner, Inc.

The Eatwell Diner, Inc., became insolvent and as a result a mortgagee's foreclosure sale was held. The Port of Boston Authority was not a preferred creditor and the assets were not sufficient to pay the preferred creditors. The Port of Boston Authority, therefore, was in a position to lose out entirely on the obligation of \$540.

However, at the foreclosure sale it was indicated to the purchaser and the attorney for the mortgagee, that unless some payment was made to the Commonwealth a permit would not issue for the purchaser at the mortgagee's sale to carry on the business of the diner.

The attorney, in order to make the sale, agreed to make payment to the Commonwealth in the sum of \$250. so that the sale could be consummated. In that way the Commonwealth at least received a substantial payment on the obligation which it otherwise would not be entitled to.

It is in order, therefore, for the Port of Boston Authority to accept the check in the sum of \$250 and to cancel out the remainder for it is uncollectable.

Very truly yours,

TIMOTHY J. MURPHY  
Assistant Attorney General  
Counsel for Port of Boston  
Authority

TJM:gea

Castle Island Terminal: On the date of audit legislation and negotiations with regard to the acquisition of the Naval Facility at Castle Island was still pending before the Congress of the United States and the General Court in this Commonwealth. In this connection the following excerpts from the official minutes of the Port of Boston Authority are shown:

Minutes of Meeting, March 20, 1951

Castle Island Terminal: The director presented the following communication from the United States Navy relative transfer of Castle Island to the Commonwealth of Massachusetts:

COPY

Department of the Navy  
Bureau of Yards & Docks  
Washington 25, D. C.

In reply refer to  
B-412/pb  
ND1/ND1-13  
T22-88-CI

March 9, 1951

Timothy J. Murphy, Assistant Attorney General  
Commonwealth of Massachusetts  
State House, Boston, Massachusetts

Dear Mr. Murphy:

On June 10, 1950, this Bureau, in its letter to you outlined a proposal concerning the Naval Facility at Castle Island which it felt would satisfy the needs of both this Department and the Port of Boston Authority. You were also advised that if the proposal was satisfactory to you, this Bureau would solicit further necessary Departmental approvals.

The Secretary of the Navy and the Chief of Naval Operations have considered this proposal and have made their determination. Under this authorization, the Bureau may initiate action to obtain Congressional authorization to convey all of the Government's right, title and interest in and to Castle Island to the Commonwealth of Massachusetts. However, this conveyance will require the Commonwealth to preserve the improvements now on the premises, or hereafter placed, in such condition as will insure their availability for use as terminal facilities; the conveyance will also provide that in the event Castle Island is used, in whole or in part, for purposes other than a terminal without the prior consent of the Government, all rights, in and to the premises would cease and determine and title thereto would revert to the Government. The Government must also be given the right as a condition of this conveyance, to recapture the entire Facility, including the land as well as the improvements, during any national emergency on a free use basis.

This transfer is to be effected upon the conveyance to the Government by the Commonwealth, or other parties in interest, of all outstanding right, title and interest in and to three tracts of land generally identified as follows: (1) an area 142 x 160 feet occupied under Permit 4112 issued by the Commonwealth of Massachusetts (Port of Boston Authority); (2) an area of approximately 480,000 sq. ft. occupied under Permit 4113 issued by the Commonwealth of Massachusetts (Department of Public Works); and (3) an area of approximately 440,000 sq. ft. adjacent to the lands occupied under Permit 4113, this area being part of the Reserve Channel which was occupied and filled by informal permission of the Commonwealth of Massachusetts and the War Department (Corps of Engineers).

For your information, the federal legislation proposed will be similar in form to that of the Act of Congress of July 2, 1948, Public Law 891 (62 Stat. 1235) which authorized an exchange of land between the City of San Diego, California, and the United States.

It would be appreciated if you would advise the Bureau if this procedure is satisfactory to the Commonwealth and the Port of Boston Authority. If it is found satisfactory, it is suggested that drafts to the proposed legislation be exchanged as quickly as possible, since it is the desire of the Bureau to incorporate the necessary enabling Act in its next legislative program; there will also be forwarded to you for your consideration and acceptance, a permit which will supersede the present permit from the Department of the Army (Corps of Engineers), authorizing the continued

P.D. 6

use and occupancy of the Facility pending the exchange of titles and establishment of reciprocal rights.

Sincerely yours,

(signed)

F. A. Mason  
Commander (CEC) USNR  
Director, Property Admin. Div.  
by Director of Chief of Bureau

After discussion, on a motion duly made and seconded, it was voted that T. J. Murphy, Counsel for the Authority, draft necessary legislation to effectuate the proposals set forth in the above letter, and that such legislation be approved at a future meeting of the Commissioners.

Minutes of Meeting, May 11, 1951

Castle Island Terminal: Mr. T. J. Murphy, Counsel, outlined a proposed draft of legislation to be introduced in the Congress of the United States by the United States Navy and by the Port of Boston Authority in the Massachusetts State Legislature for transfer of the Castle Island Terminal to the Port of Boston Authority. After full discussion, on a motion duly made and seconded, it was voted to approve the action already taken by Counsel T. J. Murphy and it was further voted to authorize him to proceed with his negotiations with the United States Navy.

Minutes of Meeting, May 18, 1951

U. S. House Bill No. 4049: On a motion duly made and seconded, it was voted to recommend passage of U. S. House Bill No. 4049 - an act authorizing the Secretary of Navy to transfer to the Commonwealth of Massachusetts certain lands and improvements comprising the Castle Island Facility at South Boston in exchange for certain other lands.

Hoosac Pier Grain Elevator Property: This property was purchased from the Boston and Maine Railroad for the sum of \$100,000.00 in accordance with an agreement dated in April 1948. The cost of additions and alterations was originally estimated to be \$425,000.00 making an aggregate tentative cost of \$525,000.00. A lease was executed on this basis with the Boston and Maine Railroad for rental of the elevator upon completion, at a rental equal to 3% of the cost of the elevator and additions and alterations for a term of twenty years.

In connection with the foregoing it was later indicated that the cost of additions and alterations would exceed the original estimated cost by approximately \$80,000.00.

It was noted that an amended lease based on the increased cost is still in the process of negotiation.

In this connection attention is called to the fact that the railroad actually occupied these premises as of April 20, 1951. However, because the negotiations relative to the adjustment of the original lease have not been completed no rent has as yet been received.

The following letter dated March 30, 1951 from the Vice-President of the railroad appears to indicate that these rents would be payable to start as of April 15, 1951 provided certain adjustments were made on the lease:

COPY

BOSTON AND MAINE  
North Station  
Boston 14, Mass.

March 30, 1951

Mr. J. M. Bresnahan, Director  
Port of Boston Authority  
Commonwealth Pier 5  
Boston, Massachusetts

Dear Mr. Bresnahan:

At our meeting with the Authority which was held in its office, Monday, March



26, the following agreements were reached in connection with grain handling facilities at Hoosac Elevator. The Authority is to have these grain handling facilities in operable condition on April 15, 1951. If, after an inspection thereof by the engineering officers of the Authority and the Boston and Maine Railroad certifying that they are then operable so far as can be seen, the Boston and Maine Railroad will take over the facilities and the rental period will start as of April 15, 1951 in accordance with the original agreement and the amendments thereto covering these facilities.

The Boston and Maine Railroad will use its best efforts to obtain shipments of grain to be handled through Hoosac Elevator. In the event difficulties, mechanical or structural, are experienced either in filling the Elevator or discharging to ships, which may delay the handling of grain, an appropriate adjustment in the rental will be made by the Authority in accordance with the understanding reached at our meeting of March 26, such understanding to be embodied in an agreement amending the basic Elevator lease.

It was also stated that the Authority had funds in the amount of \$48,000 which could be spent for additional facilities to improve the running of grain and which the Authority were prepared to spend if the Railroad was willing to increase the ceiling of \$605,000 by such amount. The Boston and Maine Railroad is willing to increase the ceiling by \$48,000 to cover certain additional items including as the principal one the purchase and installation of electric winches on the grain sprouts. The \$48,000 to include the cost of construction and the interest during construction. Any additional rental because of this increased ceiling will not apply until the work covered by this increased cost is complete.

The details of the proposed additions will be furnished to the chief engineer of the Authority by Mr. . . . . ., president Mystic Terminal Company.

If the conditions as stated above are in accordance with the understanding of the Authority as agreed to in above mentioned meeting, will you please advise us and state your readiness to progress the work along the lines above indicated.

Very truly yours,

In view of the fact that rental charges for this facility have not yet been established the Authority still has time to insist that the full costs of interest and construction shall be included in this charge. In no event should the mistake made on Hoosac Pier rentals be repeated.

**General - Bookkeeping:** This Authority maintains two commercial checking accounts in the same bank. In the past because of the fact that the checks bear the same color, the bank has occasionally been confused and has charged the wrong account. In order to avoid this situation it is suggested that each account use different colored checks.

It was further noted, that the method of recording the "Advances to Employees" was not in accord with Comptroller's Bureau Accounting Manual. The method was corrected while the audit was in progress and now conforms to routines suggested in the Accounting Manual.

**Mystic Pier Lease:** In this connection the previous audit report stated:

"The purchase price of this facility which was approved by the Governor and Council on September 1, 1948, was \$1,345,000.00.

"An interim lease was granted to the lessee, the Boston and Maine Railroad, on October 23, 1948. There is no rental paid by the lessee during this interim period. The following excerpt from a memorandum to the Acting Director of the Port Authority from the Chief Engineer, dated February 16, 1950, follows:

'In lieu of a rental on the Mystic property acquired for the proposed pier facilities during the interim period between acquisition and construction, the lessee agreed to maintain and operate the grain elevator facilities for a period of approximately two years. Although the estimated

cost of \$100,000.00 for the annual maintenance of the grain facilities appeared high, there was no definite way of determining the cost. In my opinion, the cost would be nearer \$80,000.00.

'There is apparently no question that the grain facilities were in very bad shape. It is the intention of the Authority, after completion of the Hoosac facilities, to demolish and remove the Mystic grain elevator facilities because they are in such poor condition.

'It was decided by the Port Commissioners in July 1948, that it would be to the best interests of the Commonwealth to have the lessee maintain the grain facilities in lieu of paying rent for the pier. It appeared that the benefits to the Commonwealth would be far greater by this arrangement.'

"A twenty-year lease to begin when the activity is completed was approved on December 8, 1948."

In this connection it is understood that the project will be completed in the near future.

**Sale of Land:** During this audit period, a piece of property at C and Anchor Street, South Boston, containing 55,814 square feet was sold for \$28,000.00 even though the property had been appraised for \$35,000.00, a short time before it was sold, and had an assessed valuation of \$154,000.00. The sale of this property was also approved by the Authority and the Governor and Council.

#### GARDNER STATE HOSPITAL

REPORT No. 52-9

**Deficiency in 1951 Maintenance Appropriation:** It was noted that there were still unpaid deficiencies totaling \$14,823.09 as of the close of the previous fiscal year. These liabilities for which no funds were yet available as of the date of audit were analyzed as follows:

Heat and Other Plant Operations	\$14,031 48
Food for Persons	466 44
Services - Non-Employees	126 00
Farm and Grounds	73 52
Housekeeping Supplies and Expenses	56 57
Travel and Automotive Expenses	44 64
Office and Administrative Expenses	20 18
Repairs, Alterations and Additions	4 26
	<u>\$14,823 09</u>

In connection with the foregoing particular attention is directed to the deficiency for Heat and Other Plant Operations in the sum of \$14,031.48. It was learned that the greatest part of this item represented 1460.3 tons of coal at a total of \$7,065.23, and the cost of its freight totaling \$5,874.75.

On checking this situation it was further learned that for the 1950-51 year a contract had been awarded for 6,200 net tons of coal. On February 13, 1951 the institution advised the coal contractor that he had shipped all coal which was due it under the existing contract, and indicated that there were no funds available for payments for additional coal. Notwithstanding this notification, the contractor continued to ship coal to the extent previously indicated, and peculiarly, the institution accepted delivery.

It was also learned that the institution authorities on several occasions communicated with an official in the Department of Mental Health with regard to this matter. In the latter part of July, 1951, apparently in compliance with direct instructions from the Second Assistant Commissioner of Mental Health, these coal bills were scheduled for payment as charges against the 1952 appropriation, even though all parties concerned were well aware of the fact that they were not proper charges against the current year's appropriation. The Comptroller's Bureau recognizing this situation returned the bills in question with the following notation:

"Vendor's bills attached to these invoices are dated before July but vouchers have been submitted as 1952 charges and purchase orders 640787 and 640788 to which they apply have been encumbered in 1952 marked 'delivered in 1951, no funds available for encumbrance or payment.' It will be necessary, therefore, to resubmit the invoices as deficiency items, together with a letter to the Comptroller, explaining the cause of deficiency."

On August 7, 1951 the bills referred to were re-submitted as deficiency items in compliance with the above instructions of the Comptroller's Bureau. The letter accompanying the bills explaining the deficiencies simply stated:

"We are unable to obtain further funds in our 08 account, therefore, this invoice is chargeable to 1951."

In connection with the foregoing the following two letters were received by the institution from the Second Assistant Commissioner of the Department of Mental Health:

COPY

DEPARTMENT OF MENTAL HEALTH  
15 Ashburton Place, Boston 8

August 17, 1951

Warren P. Cordes, M.D.  
Supt. Gardner State Hospital  
East Gardner, Mass.

Dear Doctor:

Attached is a copy of a letter from the ..... Corporation pertaining to coal shipped to your institution. This department is unable to understand why there was a cancellation of the order of coal shipped to your institution.

Your Steward was advised on several occasions that the coal would be paid for out of this year's funds, even though it is on a previous year's contract.

It is desired that you take immediate action to insure payment of coal received at your institution at the earliest possible date, and advise this department when this has been accomplished.

Very truly yours,

.....  
2nd Asst. Commissioner

JPG/ao'r

COPY

DEPARTMENT OF MENTAL HEALTH  
15 Ashburton Place

August 21, 1951

Warren P. Cordes, M. D. Supt.  
Gardner State Hospital  
East Gardner, Massachusetts

Dear Dr. Cordes:

Reference is made to your letter of August 20 pertaining to the processing of invoices received by your institution during the fiscal year 1951 from the ..... Corporation.

When these invoices were processed on July 31 a letter of explanation should have accompanied them because of extenuating circumstances.



It is suggested that your administrative personnel be instructed to handle all special cases which require an explanation as this one did, in that manner.

A letter of explanation will eliminate the necessity of reprocessing as was the case of these invoices.

Very truly yours,

JPG:MOH

.....  
2nd Assistant Commissioner

This matter was discussed with the Second Assistant Commissioner in the Department of Mental Health who indicated that this coal was delivered on the advice of the Supervisor of Power Plants in the Commission of Administration and Finance. He further indicated that had this matter been so explained when the invoices were submitted for payment, they would have been processed for payment as 1952 charges. When this matter was discussed with the Supervisor of Power Plants, he disclaimed all responsibility for the deficiency.

From the foregoing it is obvious that the Second Assistant Commissioner exceeded his authority in suggesting that the coal be paid for with 1952 funds. He should have been aware of the fact that even though extraneous circumstances were valid, that from a practical point of view there are no available means to pay for such items.

As a matter of information attention is also called to the fact that the firm having the coal contract for the 1950-51 fiscal year did not receive it for the ensuing year.

LOWELL TEXTILE INSTITUTE

REPORT No. 52-10

General: Lowell Textile Institute, formerly Lowell Textile School has been operated by the Commonwealth since July 1918. At that time, the textile business was largely located in New England and concentrated in Massachusetts and for this reason the cost of subsidizing the industry from public funds to the extent of supplying trained and qualified executives, foremen and workers was apparently acceptable to the General Court.

It is unnecessary in this report to provide evidence that the textile industry in recent years has been gradually withdrawing from New England and even more extensively from Massachusetts.

Attention is directed to the fact that tuition rates presently charged to out-of-state and alien students by the Institute do not begin to meet the actual per student cost of operating the school. While this condition might have been acceptable when the Commonwealth was the leader in textile manufacture, there seem to be no valid reason why the taxpayers of this Commonwealth should continue to subsidize in this manner an industry which has largely withdrawn from Massachusetts. In paying from tax revenue a substantial part of the tuition costs of non-residents of Massachusetts and in addition by providing education, at considerably less than cost, to students from foreign nations we are in reality subsidizing the very competition which is destroying the textile industry of the Commonwealth.

This Department sees no reason why bona fide residents of the Commonwealth should not continue to receive this training at less than cost, but it is recommended that out-of-state and alien students should henceforth be charged the actual costs of the training they receive.

While our examination has disclosed no evidence of preferential treatment in the matter of admissions to out-of-state or alien applicants by the officials of the school, during the current school year, nevertheless we recommend that the Trustees provide some definite statement that preference in-admission to the Institute shall be shown to bona fide residents of the Commonwealth.

Non-Residents Paying Resident Tuition: Tuition for Massachusetts residents has been established at \$150.00 while the out-of-state students are required to pay \$250.00.

It was noted during this audit that several out-of-state students were allowed to pay only \$150.00 in tuition by producing \$2.00 poll tax receipts. These students were in no sense residents of the Commonwealth as is evidenced by the fact that several were driving on the campus in their own cars which were registered outside the Commonwealth.

These facts were brought to the attention of the school officials and immediately thereafter the following regulations were adopted on September 29, 1951:

"Rules and Regulations Governing Student Residence at Lowell Textile Institute

Because Lowell Textile Institute is a State supported institution, its educational

program and facilities are made available at a low tuition rate to students entering from the Commonwealth. Eligibility for admission as a resident entitled to the low residential tuition is determined under policies established by the Board of Trustees.

- a. Every student claiming residence in Massachusetts must file with the Bursar a certificate signed by either the town or city clerk of the community claimed as legal residence, stating that the student's parents, or guardian, are legal residents of the Commonwealth of Massachusetts.
- b. The residence of a minor shall follow that of the parents, unless the minor has been emancipated. A minor student who has been emancipated shall, in addition to the requirements respecting residence, present satisfactory documentary evidence of emancipation.
- c. A minor under guardianship shall be required to present satisfactory documentary evidence of the appointment of a guardian in addition to the certificate of residence of the guardian.
- d. A student shall not be considered to have gained residence in the Commonwealth of Massachusetts by reason of attendance at Lowell Textile Institute, nor shall a student lose residential preference during continuous attendance at the Institute.
- e. The residence of a wife shall follow that of the husband.
- f. The prescribed form of application for classification as to residence shall be executed for each student. Misrepresentation of facts to evade payment of the proper rate of tuition shall constitute sufficient cause for suspension or permanent separation from the Institute.
- g. Payment of one-half of the total yearly tuition will be made during the registration for each semester.
- h. The President of the Institute is authorized to adjust individual cases within the spirit of these rules."

**Salary Augmentations:** It was noted that certain members of the faculty are still receiving grants from private sources to supplement salaries paid by the Commonwealth. Apparently as a result of a comment contained in a previous audit report the Chairman of the Commission on Administration and Finance approved a plan on September 29, 1947, whereby payments to faculty members for extra compensation was made possible. This plan under which these subsidies were to continue states as follows:

- "1. Amounts may be awarded by the New England Textile Foundation directly to those faculty members recommended by the administration heads of Lowell Textile Institute, New Bedford Textile, and the Bradford Durfee Technical Institute with the approval of their respective Boards of Trustees.
- "2. Awards may be made to faculty members in amounts such that the total salaries shall not exceed the maximum salaries of their respective classifications as established by the Division of Personnel.
- "3. Awards may also be made to faculty members for assignments and for services in addition to their full-time teaching schedule.
- "4. A report of the awards made under the above plan by the New England Textile Foundation will be filed with the Commission on Administration and Finance."

Attention is also called to the fact that as of the date of this audit, the report required under Paragraph 4 had not been submitted to the Commission on Administration and Finance since March 28, 1949 despite the fact that awards have been made to various faculty



members from funds provided by the New England Textile Foundation during the 1949-1950, and 1950-1951 fiscal years.

It is particularly worthy of comment that during this audit the failure to submit these reports was discussed with the President of the Institute, and apparently as a result of this conversation, a letter was sent by the school to the Chairman of the Commission on Administration and Finance under date of December 20, 1951, in which the delinquent schedules of faculty salary augmentations were finally reported.

In further connection with this matter it was noted that while all augmentations thus reported had been approved by the Trustees of the Institute at a meeting held by them on January 12, 1951, there was an additional augmentation paid without board approval to the Dean of Faculty in the amount of \$800.00. Attention is directed to Paragraph 1 of the plan approved by the Commission on Administration and Finance which specifically states that all awards to faculty members shall be approved by the Board of Trustees.

It was further learned in connection with this examination that certain faculty members received during the 1950-1951 school year salary augmentations from sources other than the New England Textile Foundation. These sources are as follows:

Textile Texting Division  
 Lowell Textile Institute - Evening School  
 Lowell Textile Institute - Special Services  
 Lowell Textile Research Foundation  
 Lowell Textile Athletic Association  
 Lowell Textile Institute - Summer School  
 Massachusetts Department of Public Health

In connection with the foregoing attention is called to the fact that 48 members of the faculty shared in salary augmentations totaling \$29,001.23 from these various sources and of these, 33 were allowed to exceed the maximum salaries of their respective classifications as established by Paragraph 2 of the aforementioned directive. To cite an example, one employee exceeded his maximum salary by \$1,557.84 as a result of augmentations totaling \$2,776.55.

Previous audit reports have recommended that the opinion of the Attorney General be sought as to the legality of this plan. In this connection it was again noted that there has been no such request made of the Attorney General by the Institute during this audit period.

Lowell Textile Institute Research Foundation: Chapter 772 of the Acts of 1950 provided for the establishment of the Lowell Textile Institute Research Foundation for the apparent purpose of promoting research at the Lowell Textile Institute. This statute further provides that it be the subject of an annual audit by the Department of the State Auditor. This Foundation has taken over as one of its activities the functions formerly performed under "Special Services."

This Foundation will be independently audited by this Department and a separate audit report will be furnished in connection therewith.

Full-time Salary Paid Faculty Member for Part-time Services: The pay roll records for the period under audit indicated that salaries totaling \$996.23 were paid to a faculty member for services performed in June 1951 from the following sources, as follows:

Lowell Textile Institute Research Foundation:	
For Services Rendered as Director of the Lowell	
Textile Institute Research Foundation Summer	
Work Shop for month of June 1951	\$500 00
Lowell Textile Institute Summer School Fund:	
For Services of Summer School Director for the	
Lowell Textile Institute Summer School Program	
during the month of June 1951 - 60 hours @	
\$8.27205 per hour	496 23
	<u>\$996 23</u>

The records further indicate that this faculty member devoted only part-time services



in June 1951 and full-time services in July and August of 1951, to the administration of the Summer Work Shop for which he received a monthly salary of \$500.00.

In this connection it is also interesting to note, that there were no summer school classes held during the summer of 1951.

**Bookkeeping:** As suggested at the last audit, accounts are now maintained in the general ledger for the respective special appropriations. Journal entries are also on standard journal entry forms and the postings to the general ledger have been improved.

**Accounts Receivable:** It was recommended in the previous audit report that income from chemistry and breakage charges should be posted through the Accounts Receivable Control Account. It was noted that during the current audit period these items were properly handled in compliance with the recommendations.

A trial balance was taken of unpaid Accounts Receivable and it was observed that the subsidiary ledgers did not agree with the control due to the fact that tuitions due from the Veterans' Administration and from evening students were not posted to such ledgers. Instead, separate working papers are maintained to show these amounts. Therefore, in order to effect a reconciliation between the subsidiary and control, it is suggested that two new accounts be opened in the subsidiary records - one for Day and Evening Veterans' Administration and the other for Civilian Evening Students.

**Suspense Accounts Receivable:** It was noted that there were eight accounts which have been outstanding for more than one year. It was noted that these accounts were submitted to the Attorney General for collection while this audit was in progress.

**Laundry Account:** A contract was reviewed between the Institute and a local laundry on commission basis. The laundry is required to remit 15% of its gross reported sales to the Institute. It was noted that \$181.20 was received as income from this contract.

**Cafeteria Contract:** A contract between the cafeteria concessionaire and the Institute required the concessionaire to remit 10% of the gross monthly sales to the school. The total amount received from the concession from September 1950 to June 30, 1951 was \$6,206.82. This income was verified to the bursar's records.

**Income from Dormitories:** It was noted that the original potential income from the two dormitories at the Institute was estimated to be \$60,270.00 computed on the new uniform rate of \$275 per semester. The actual income for the school year 1950-1951 received from both students and transients as dormitory rent totaled \$53,177.00 which amount however represented an increase over the prior school year.

**Tuition Charges:** It was noted that a resident student from Rhode Island who was charged only \$150.00 tuition for two years paid the balance of \$200.00 due from him during the current audit period. This matter was discussed in the previous audit report.

**Tuition from Veterans' Administration:** It was noted that the income from the Veterans' Administration for veteran students decreased from about \$96,100.00 in school year 1949-1950 to about \$53,000.00 in the 1950-1951 school year.

**Miscellaneous Income:** A previous audit report stated:

"Income from vending machines is contributed to the Library Fund for the purpose of developing the library. This practice is questioned and it is suggested that the Comptroller furnish instructions for the future disposition of this income."

During this audit it was noted that an agreement has been entered into between the Board of Trustees of the Institute and the Lowell Textile Institute Library Association. This agreement provided the following clauses:

- I. The Institute grants to the Association permission and authority to install vending machines for cigarettes, candy, gum, nuts, soft drinks, and other similar product all in area of Lowell Textile Institute.

- II. The Association agrees that all income derived from these vending machines shall be deposited in the funds of the Lowell Textile Institute Library Association. The income from these machines will be used for the benefit of the student body of the Institute through the purchase of additional library material, and all items purchased from these funds will be made available to the entire student body for the benefit to be derived from them by all.

**Athletic Association Fund:** It was again noted that the treasurer of the Athletic Fund was not bonded for the custody of these funds for the period under audit. An application was mailed on August 8, 1951 for a \$2,000.00 bond.

Attention is called to the fact that the Lowell Textile Institute Athletic Association owed the Union National Bank of Lowell \$1,000.00 on a demand note dated January 30, 1951.

**Reimbursement of Research Project Due From Federal Agency:** Under the terms of a contract between the Lowell Textile Institute and the United States Department of Agriculture and approved by the Commission on Administration and Finance, effective June 29, 1948, the Lowell Textile Institute agreed to plan and diligently conduct a scientific and technical research program designed to develop a commercially more desirable cotton warp yarn for use in carpets. For this purpose an appropriation of \$71,500.00 was granted payable as follows:

A progress payment of \$10,000.00 six months after the date of execution of contract.

A progress payment of \$15,000.00 one year after the date of execution of contract.

A progress payment of \$25,000.00 two years after the date of execution of contract.

A final payment of \$21,500.00 upon completion of the project and submission of the final report to the United States Department of Agriculture.

It was further agreed that the contract remain in force until completed, but, in any event, not more than four years from June 29, 1948, the effective date of the contract.

To the date of audit, records indicated that reimbursements totaling \$50,000.00 had been received from the United States Department of Agriculture as follows:

January 1949	\$10,000 00
July 1949	15,000 00
July 1950	25,000 00
	<u>\$50,000 00</u>

It is understood that this project was completed as of June 30, 1951 and that the final report was in process of completion on August 7, 1951.

Under the terms of the contract the final reimbursement of \$21,500.00 is not due from the Federal Agency until the final report summarizing the work done, the results accomplished, and the conclusions resulting therefrom is submitted to the United States Department of Agriculture.

On January 15, 1952 the final report was in process of being completed by research personnel at the Institute.

**Special Fund - Student Loans:** It was noted that there were outstanding notes receivable totaling \$3,416.00 due on August 7, 1951 from students and graduates as follows:

Undergraduates	\$1,356 00
Graduates - Class 1951	1,200 00
1950	50 00
1947	100 00
1942	110 00
1941	220 00
1940	290 00



1935	\$ 90 00
Total	<u>\$3,416 00</u>

It was further noted that this balance included \$810.00 of overdue notes receivable which have not yet been turned over to an attorney for collection.

#### SOLDIERS' HOME IN CHELSEA

REPORT No. 52-11

Appropriations: State appropriations made to this hospital are derived from the Veterans' Service Fund. Under Public Law 823 of the 81st Congress, \$500.00 per patient per year will be made available until June 30, 1956.

Formerly, the money received from the Federal Government was added to the Appropriation Account and allotted in the regular manner. Beginning with the 1948-1949 fiscal year, the Commonwealth made appropriations to the hospital and these appropriations represented the total amount available to the hospital for the fiscal year. The money received from the Federal Government was recorded as income to the Veterans' Service Fund.

Accounts Receivable Ledger: The previous audit report included the following comment:

"It was also noted that there is still no accounts receivable control ledger being maintained. The Comptroller's Accounting Manual includes instructions for the handling of these accounts and it is, therefore, suggested that this folio be forthwith opened."

In this connection, under date of April 10, 1951, an opinion was received from the Comptroller's Bureau which indicated that it does not feel it necessary for this institution to maintain an accounts receivable control ledger and granted an exception from this requirement of its Accounting Manual.

Bonding Employees: The previous audit report stated as follows:

"It was noted that a head clerk who is the acting treasurer of this institution is the only employee bonded. It is recommended that all employees who handle cash be bonded."

On the date of audit, this situation remained unchanged, but it was noted that while the audit was in progress arrangements were made to bond all employees handling cash.

Legacy Fund: The previous audit report stated as follows:

"Gains or losses on sales of securities are credited or charged to an account called Income on Securities on the institution's general ledger, whereas the Old Colony Trust Company, the custodian of the account, handles these transactions directly through the securities principal account.

"Inasmuch as the policy of the trustees is to use only the direct income on securities, that is, interest and dividends, and permits the custodian to use any principal gains for reinvestment purposes, it is suggested that adjustments be made bringing the institutions accounting procedure into agreement with the accounting procedure followed by the custodian of the fund."

In this connection, it was noted that during the current audit period an adjustment of \$893.49 was made, bringing the book value of securities into agreement with the bank's value.

Sales of Bones and Grease: It was noted that letter bids were invited for the sale of bones and grease and that of four concerns contacted, only one returned a bid. It was understood from the institution authorities that this same company has been the only bidder for the past three years.

Repairs, Alterations and Additions: An expenditure of \$1,935.00 was made in June 1951 for stainless steel window anchors for the Lawrence Quigley Memorial Hospital.



Construction of this hospital started October 1946 and was completed in November 1949 with bronze window anchors in place. This change was made necessary by regulations contained in Industrial Bulletin No. 21, issued under authority granted by Chapter 149, Section 6 of the General Laws, and approved January 9, 1948.

Contracts with Non-Profit Hospital Service Corporations: Chapters 501 and 687 of the Acts of 1951 authorize the trustees of this institution to enter into certain contracts. Copies of these statutes follow:

Chapter 501, Acts of 1951:

"The trustees of the Soldiers' Home in Massachusetts and of the Soldiers' Home in Holyoke are hereby authorized to enter into contracts with hospital service corporations, and with insurance companies and associations furnishing hospital services, with respect to hospital services for qualified veterans, and said trustees are hereby further authorized to contract with the Veterans' Administration with respect to a bed fee to be charged at said homes. Such contracts shall provide for a minimum charge of ten dollars per day in the case of persons, other than domiciliary patients, hospitalized at said homes.

Approved July 9, 1951."

Chapter 687, Acts of 1951:

"Section 1 of chapter 176A of the General Laws, as appearing in section 1 of chapter 766 of the acts of 1950, is hereby amended by adding at the end the following paragraph:

"Nothing in this section shall prevent any such corporation, with the approval of the commissioner of public health, from entering into contracts with the Soldiers' Home in Massachusetts and the Soldiers' Home in Holyoke, whereby in consideration of a contract fee, said soldiers' homes shall provide such care for non-service connected causes as would be provided in participating hospitals under contracts with subscribers.

Approved September 25, 1951."

It is suggested that the Trustees of the Soldiers' Home check with the Federal Agency concerned to ascertain that there will be no impairment of the Federal subsidy because of contracts with non-profit hospital service corporations.

Deceased Members' Fund: Included in Members' Personal Funds on the date of audit was the amount of \$265.17 representing funds of deceased members. While the audit was in process, \$251.29 of this amount was properly distributed. It is understood that steps are being taken to dispose of the remaining \$13.88.

Canteen: The canteen at this institution is privately owned and operated. No rent is paid for the space occupied by this concession and no audit was made of its records. In this connection, it was noted that a monthly donation is being made by the canteen operator to the "Donation Account" of the institution.

In view of the substantial investment made by the Commonwealth in equipping the canteen in the new hospital, it is again suggested that study be made to determine whether this new canteen shall be privately operated or whether all profits accruing shall be expended for the benefit of patients.

MONSON STATE HOSPITAL

REPORT No. 52-12

Bonding: It was noted that the nurse in charge of patients' funds at the Children's Colony of this hospital is not bonded. It is suggested that this position be bonded.

Rent of Houses: In checking the potential income derived from rooms and houses, it was noted that Bungalow #1 at this institution has been vacant since November 19, 1949. The rental charge for the house is \$50.00 per month. As of the date of audit the loss of income from this house was \$1,000.00. Since the officers at this institution apparently are unwilling to occupy this house, it is recommended that the Superintendent be authorized to rent this bungalow to another employee of the institution.

Christmas Fund: There was expended from the Christmas Fund during the audit

period the amount of \$782.16. The disbursements of \$241.48 could not be checked to receipts or vouchers. It is recommended that the treasurer henceforth obtain receipts for all items disbursed from this fund.

Payment of Employees: New employees at this institution have had to wait several weeks before receiving their wages. This delay has occurred in positions which require approval by the Civil Service Commission. The following are indicative of these delays:

<u>Employee</u>	<u>Date Hired</u>	<u>Date Paid</u>
A	December 4, 1950	January 13, 1951
B	November 12, 1950	December 9, 1950
C	January 1, 1951	February 17, 1951
D	January 1, 1951	January 27, 1951
E	July 1, 1951	October 2, 1951
F	February 20, 1951	May 5, 1951

It is recommended that the treasurer of this institution be authorized to use pay roll funds on hand to give employees salary advances pending approval by the Civil Service Commission and the Division of Personnel.

## DEPARTMENT OF MENTAL HEALTH

### GENERAL DEPARTMENT

REPORT No. 52-13

Cash Book: Advances to employees are now being recorded in the cash book when they are made and also when returned. It is suggested that this practice be discontinued and the method suggested in the Accounting Manual of the Comptroller's Bureau be followed.

It was also noted that three checks in the Patients' checkbook were missing on the date of audit. No reason was given for the missing checks and stubs, which were numbered 1369, 1370 and 1371.

Journal Entries: It is suggested that journal entries be signed and approved by the proper employees and that sufficient informative detail be appended so that it may be readily understood.

Deposits of Income: At present all departmental income is being deposited in the Second National Bank of Boston. At the end of each month a check is drawn for the total income received during the month and deposited with the State Treasurer on a regular receipts voucher. Refunds of receipts are also being handled through this same bank account.

It is suggested that this bank account be closed and all income be deposited daily with the State Treasurer on a regular receipts voucher. All refunds should be scheduled in the manner prescribed by the Comptroller's Accounting Manual.

Old Outstanding Checks in the State Bank Account: Included in a list of outstanding checks in this account were two checks which have been outstanding longer than one year. One of these in the amount of \$5.00 has been outstanding since August 24, 1949, and the other, in the amount of \$7.04, since November 2, 1949. It is recommended that payment on them be stopped and the proceeds be deposited with the State Treasurer in the Unpaid Check Fund.

Accounts Receivable - Patients' Wages: On date of audit the trial balance of Patients' Accounts Receivable Wage Account was not in agreement with the general ledger control account. It was also noted that there were many errors in reporting credit deductions by the Division of Mental Deficiency to the Department bookkeeper. While the audit was in progress, the necessary adjustments were made to bring the control account into agreement with the trial balance.

In this connection it is recommended that a trial balance of the patients' wage cards be taken monthly and reconciled with the control account in the general ledger.

Accounts Receivable - Department: It was noted that Department income and refunds is not being recorded in the Accounts Receivable Control Account.

It is suggested that all income and refunds of income be recorded in the Accounts Re-



ceivable Control Account in accordance with instructions in the Comptroller's Accounting Manual.

**Suspense Accounts Receivable Account:** It is recommended that a Suspense Accounts Receivable Account be set up in the general ledger. The balance of this account should represent the accounts in the hands of the Attorney General for collection as suggested in the Comptroller's Bureau Accounting Manual.

**Bonded Employees:** It was noted that the following positions are not bonded:

Second Assistant Commissioner  
Business Agent  
Administrative Assistant to the  
Commissioner, Business Division

It is suggested that steps be taken to provide bonds for the foregoing employees as they presently have authority to sign checks.

**Accounts with Attorney General for Collection:** It was noted that the total of the outstanding accounts receivable as of June 30, 1951 was \$2,060,032.54. Of this amount, \$253,849.47 representing 148 accounts was supposedly in the hands of the Attorney General for collection. On checking these accounts with the records in the Department of the Attorney General, it was noted that these accounts showed an aggregate balance of only \$250,851.01. In addition to the foregoing, there were records of several accounts in the Attorney General's file which could not be found in this category on the Department's accounts and conversely, there were many other accounts on the Department's records which should have been on the Attorney General's records, but which could not be located in the file of the latter department.

Because of the foregoing, it is recommended that an effort be made to establish an accurate list of all accounts in this category and that it be submitted forthwith to the Office of the Attorney General so that necessary collection routines may be effected.

**Accounts Receivable - Verification Notices:** Verification notices were mailed to persons of record whom the records indicated were responsible for the established board of patients, on 961 open balances, as of September 1, 1951, of those mailed, 511 (53.17%) were returned, including 68 with queries, comments, etc. These were checked and explanatory letters were written where necessary. There were also 24 notices returned as "Not Found", "Moved", "Not Known", etc.

**Institutions - Monthly Financial Reports:** The Institutions Financial Reports which are submitted monthly to the Department of Mental Health are apparently not being reconciled with the control financial records in the Department. An attempt was made to reconcile the total cash received on account of Board of Patients with the financial reports submitted to the several institutions and it was noted that in order to reconcile Board of Patients collections, it was necessary to analyze all debit and credit adjustments which entailed a great deal of detailed checking. It is suggested that the Department instruct the Treasurer of each of its institutions to include in their respective monthly reports a complete analysis of the "Collections - Board of Patients".

**Trust Fund Receipts:** During the current audit period, a check dated April 11, 1950, in the amount of \$582.19 was received from the Estate of Ellen P. Drew. This check was deposited in the income bank account and no identifying account was set up in the general ledger of the Department.

As this item apparently is in the nature of a trust fund, it is suggested that it be transferred to the State Treasurer with a complete explanation, so that the proper accounting procedures may be initiated.

**Debit and Credit Adjustments:** In connection with this examination, the debit adjustments were tested for the months of October 1950 and the credit adjustments for the month of June 1951. For the months referred to, the debit adjustments totaled \$23,261.37 and the credit adjustments totaled \$64,625.79. On analysis, these adjustments fell into the following categories:

**Debit Adjustments:**

Transfers from Active to Inactive, etc.

\$15,848 41



Absorb Credit Balance	\$ 3,850 33
Payment Credited in Error	1,549 39
Incorrect Billing	755 84
No Record	634 32
Soldier Case	333 00
Return from Visit	180 57
Refund Receipt Vouchers	109 51
	<u>\$23,261 37</u>

Credit Adjustments:

Canceled by Division of Settlement	\$45,725 20
Deaths, Discharges, Visits not Noted	4,244 98
Charged Off by Attorney General	4,217 69
Reopened	3,166 39
Change of Payor	2,983 10
Amended Rates	1,529 79
Bookkeeping Error	1,179 41
Credited to Wrong Account	338 58
Overcharges	330 03
Prior Payment Credit	327 16
Transfer to Veterans' Administration	214 15
Instructions not Carried Out	131 44
Transfers from Active to Inactive	130 72
No Liability	107 15
	<u>\$64,625 79</u>

These items were discussed with the Billing Section and certain necessary adjustments were made.

It is recommended that an effort be made by the Department to reduce these errors to a minimum. A careful study should be made to determine how and why these errors occur. In this connection the institutions should be required to furnish all changes in the status of their patients to the Department more promptly.

It is also recommended that the rating schedule which is now used as a basis for charges be amended so that a maximum amount of income may be obtained in accordance with a patient's ability to pay.

**Plans and Specifications:** On date of audit numerous certified checks were listed, the date of which varied from one to six months prior to the date listed. The plans and specifications issued to the contractor stipulate as follows:

"Contractors desiring to bid on this work must deposit for the withdrawal of plans and specifications the sum of . . . to be refunded to those returning them in satisfactory condition within ten days after the opening of bids."

It has not been the practice to follow this procedure. Checks have been returned to contractors regardless of whether or not the plans and specifications are returned within the required period of time.

It is, therefore, again recommended that the Department see that conditions as stated in the plans and specifications are complied with and that after the expiration of time indicated the certified checks be forfeited and sent to the State Treasurer as income.

**Board of Appeal:** Chapter 19 of the General Laws, as amended by Chapter 764 of the Acts of 1950 inserting Section 7, provides for the establishment of a Board of Appeal consisting of two members to be appointed by the Governor for terms of three years and an Assistant Attorney General designated by the Attorney General. The Chairman of the Board and the other appointive member receive fifty dollars and thirty-five dollars respectively for each day or portion thereof in the performance of their official duties. The Board was set up to hear and determine appeals taken from decisions of the Commissioner relative to the discharge of patients by the Department.

The Department of Mental Health apparently does not keep any books or records pertaining to the Appeal Board and no audit was made of any records beyond an examination of copies of pay rolls which the Board submitted to the Comptroller's Bureau for payment. These pay rolls indicate that a total of \$5,525.00 has been paid to the two appointive members of the Board from May 15, 1951 to August 15, 1951.

**Increased Cash Collections Account of Patients' Board Due to Installation of Machine Billing System:** A comparison follows showing certain information regarding some years during which this Department operated its Billing Section manually as compared with the current machine system. The years from 1944 to 1949 inclusive show operations under the original system and the years 1950 and 1951 show operations under the machine system:

Fiscal Year	Collections	Increase over Previous Year	Salaries and Expenses	Increases over Previous Year	Collection Cost per Dollar
1944	\$1,051,835 36	-	\$38,047 40	-	.036
1945	1,076,294 41	\$ 24,459 05	38,063 06	\$ 15 66	.035
1946	1,152,697 91	76,403 50	41,175 57	3,112 51	.0357
1947	1,200,411 39	47,713 48	48,155 42	6,979 85	.0401
1948	1,247,263 80	46,852 41	50,378 63	2,223 21	.0404
1949	1,294,427 19	47,163 39	55,737 38	5,358 75	.0430
1950	1,379,730 07	85,302 88	85,411 56	29,674 18	.0610
1951	1,551,733 67	172,003 60	92,770 89	7,359 33	.0598

#### SECRETARY OF THE COMMONWEALTH

#### GENERAL DEPARTMENT

REPORT No. 52-14

**General Department - Bookkeeping Records:** An examination of the Department records for the period under audit indicated that the No. 4 copy of the standard invoice is not being received by the Department bookkeeper. The Comptroller's regulations require the No. 1 and No. 4 copies of the standard invoice to be initialed to indicate that the goods or services have been received by the respective divisions of the Department. It was likewise noted that no Vendor's File for the No. 4 copy is being maintained by the Department as is also required by the Comptroller's Manual. It is suggested that steps be taken to correct these situations.

It was also noted that the entries for current and prior year refunds, and advance money, are now being properly recorded in the main section of the general cash book in accordance with a suggestion made in the report of the previous audit.

**Archives Division - General:** A considerable amount of time was unnecessarily expended in connection with the current examination in establishing a list of outstanding accounts receivable as of the date of audit for this division. There was a list of unpaid accounts in the division as of August 27, 1951 which did not agree with the list which was being used in the cashier's cage in the general office, and neither of which was in agreement with the listing finally compiled in connection with this audit.

On the date of audit there appeared to be a total of \$577.75 still uncollected of which \$137.50 was incurred prior to 1948. The balance of \$440.25 represented 1950 and 1951 charges. It is suggested that the older balances should be referred to the Attorney General for disposition.

It was also noted that the current balance included the sum of \$67.25 which represented ten orders which were filled and charged but were still on hand awaiting being picked up. The oldest of these orders was dated in March 1951. It would seem that some organized effort should be made to insist that these orders be picked up more promptly.

It was further noted that the sum of \$1,489.95 owed by a former employee which was discussed in the previous audit report was received and entered on the cash book on May 16, 1951.

**Division of Public Documents - Sale of Massachusetts Reports:** In conformance with a new contract effective January 1, 1951, the printing firm of Wright and Potter ceased selling volumes Nos. 265 to 319, inclusive, of the Massachusetts Reports, after December 31, 1950. The authority to sell these volumes was transferred to the Secretary of the Commonwealth. On that date there was a total of 68,789 volumes of these reports stored in the State House even though they technically were in the custody of the printers. In addition 1,172 of these volumes were actually in the custody of the printer as indicated by a certified statement to that effect as of December 31, 1950. On January 2, 1951 the actual control of the volumes stored in the State House was transferred to the Secretary. However, of the 1,172 volumes supposedly on hand with the printers only 915 copies could



be found, indicating a variance of 257 copies with a potential sales value, at the prices then in effect, of \$620.55. On January 12, 1951, a check for \$257.00 was received from the printers as full settlement for the inventory variance and the remaining 915 volumes were delivered to the Secretary of the Commonwealth on January 19, 1951.

The acceptance of \$257.00 for the missing volumes was based on a new selling price for these older volumes which was established by the Secretary, effective January 1, 1951.

This new selling price was established in conformance with Chapter 57 of the Resolves of 1950, which follows:

"That the board established by section twenty of chapter nine of the General Laws is hereby authorized to sell the surplus volumes of the Massachusetts Reports stored in the office of the state secretary at such prices below those presently fixed therefor, based upon purchases in quantity of consecutively numbered volumes, as the board by vote shall fix and determine; provided, that when the supply of a particular volume has been reduced to one hundred copies, the remaining copies of said volume shall no longer be publicly sold but shall be retained for supplying public offices and public libraries. Said board may sell said volumes through the office of the state secretary by direct sale or contract. All revenues hereunder shall be paid into the office of the state secretary and shall be accounted for by the state secretary as is provided by law for all receipts of his office."

In this connection the propriety of allowing these volumes to be reimbursed at a rate which was established as of January 1, 1951 is questioned, as it may safely be presumed that the variance developed during a period several years previous to that particular date.

**Division of Public Documents - Obsolete Books:** The present inventory in the Division of Public Documents includes books that are from 30 to 50 years old and were recorded in the stock books on the date of audit as having an issue value of approximately \$41,500.00. These records further indicate that from October 1935 to August 1951, sales of these books totaled only \$690.45 or an average of approximately \$44.00 per year. In view of the decreasing demand for these old books and the urgent need of finding store room space for new books, it would appear that steps should be taken by the Secretary of the Commonwealth to dispose of these books in accordance with law.

**Division of Public Documents - Free Issue:** During the period under audit books having a potential sales value of \$40,575.10 were issued free by the Division of Public Documents to authorized City, State and Federal agencies upon official written request. These official requests are recorded in a "Free Issue" column of the respective Stock Book accounts and are then filed in a correspondence file which includes more than 250 folders. This practice obviously does not provide a proper method for accounting for these "Free Issues" by fiscal accounting periods. It is, therefore, recommended that all books having a sales value that are issued gratis to authorized agencies be recorded on serially numbered forms. These official requests for "Free Issues" should then be filed, after delivery, for accounting purposes in chronological order.

**Division of Public Documents - Physical Inventories of Books on Hand:** Examination of the inventory records of this Division indicates that the last time a physical inventory was taken by its employees was on June 15, 1950. The Accounting Manual, issued by the Comptroller's Bureau, requires that institutions take an inventory of their active stock ledger items at least four times a year and of their inactive items at least three times a year. While this Division does not actually come within this category, it would appear to be consistent with good accounting control for this Division which has an inventory in excess of \$200,000.00 on its books to take a physical inventory at least once in every fiscal year.

**Division of Public Documents - Bookkeeping Records:** In connection with this audit it was noted that the Raymond Trial Balance Book, in which units and values of issues and balances appearing in the stock book ledger accounts are recorded at the close of each month, has been discontinued. It is recommended that this record be restored to use, as it is an important part of the accounting system.

It was also noted that a recommendation in the previous audit report concerning the handling of sales was put into effect on July 1, 1951. All charge sales are now properly recorded in a "Charge Sales Book".



**Vital Statistics:** Previous audit reports have discussed in some detail the situation in respect to a contract for furnishing certain data to the Federal Government. On December 8, 1949, the Attorney General rendered an opinion with respect to the particular questions on this matter which reads, in part, as follows:

"It follows, therefore, that to permit a private contractor to examine the record of all births in the Commonwealth which are under the supervision of the State Secretary, would involve a violation of G. L. (Ter. Ed.) c. 46 sec. 2A. Hence, the answer to the first question proposed is in the negative as to your entering into the contract in your individual capacity and in the affirmative as to entering into the contract in your official capacity. This would seem to eliminate the necessity of answering the second question.

As to your third question, it is my opinion that all moneys received from the Federal Government, through the National Office of Vital Statistics, for the work performed in your department under the contract made by you in your official capacity as State Secretary should be deposited as a whole with the Treasurer and Receiver-General of the Commonwealth, and payments made therefrom only in the ordinary and usual course of transacting public business.

The effect of this opinion, however, is not to deprive the National Office of Vital Statistics of valuable statistical and public health reports. It would appear that ample authority is conferred by G. L. (Ter. Ed.) c. 262, sec. 36 and 37, upon the State Secretary acting in his official capacity to furnish the required information at the rate paid by the Federal Government.

Very truly yours,

s/ Francis E. Kelley  
Attorney General"

Despite the unmistakable clarity of this ruling no changes in the contract or procedures outlined in the previous audit report have been initiated.

As of the date of audit the balance in this account was represented as follows:

Cash in Bank	\$1,391 19
Due from National Office of Vital Statistics	648 76
Total	<u>\$2,039 95</u>

#### LAKEVILLE STATE SANATORIUM

REPORT No. 52-15

**Board Rate for Crippled Children:** Effective May 1, 1949, a minimum rate of \$14.00 per week was established. However, under the administrative policy now in effect, the minimum rate is actually based entirely on the family's ability to pay. The rate to be paid is determined by an institution social worker after investigating the financial status of the family concerned.

**Room Register:** In accordance with a suggestion in the previous audit report a satisfactory room register has been installed and was available for use in connection with this examination.

**School Lunch Program Fund:** This fund, established with funds received from the Federal Government, is for the purchase of equipment used in preparing and serving of food.

**Farm Losses:** The farm report for the 1950 year indicated a loss of \$7,282.14 in comparison with the farm loss of \$10,036.80 reported for the previous farm year. This loss was attributed largely to the increased costs of grain and other supplies; the unreasonably low prices allowed as a credit for farm products by the Commission on Administration and Finance; and the fact that the farm was being operated at substantially less than normal capacity. This audit further indicated that the farm loss indicated for the 1950 year was actually understated in the amount of \$2,245.63.

**Farm Production Reports:** Farm production reports were not checked in connection with this audit because they could not be located. These records are most important and a serious effort should be made to make them available for use in the next annual audit.

**Farm Records:** Several clerical errors were again noted in the farm records. The errors were called to the attention of the proper sanatorium personnel.

**Farm:** In accordance with instructions from the Commission on Administration and Finance the farm was officially discontinued as of June 30, 1951. It is understood that the main reason for this action was because the cost of producing milk was greater than it could be bought on the open market.

In this connection, an examination of the 1950 dairy records indicated that the sanatorium produced 135,669 quarts of milk at an average cost of .1160 cents per quart. This cost was based on the accounting procedure as outlined in the Comptroller's State Accounting Manual.

It was further noted that this sanatorium has been buying milk with approximately a comparable butter fat content as it produced in its own dairy, after competitive bidding from the lowest bidder in each case, at the following prices:

<u>Month</u>		<u>Butter Fat Content</u>	<u>Price Per Quart</u>
April	1951	3.5%	15 cents
May	1951	3.7%	15.75 cents
June	1951	3.7%	15.75 cents
July	1951	3.7%	15.75 cents
August	1951	3.7%	17.25 cents
September	1951	3.7%	17.25 cents

For the quarter ending December 31, 1951, the sanatorium has contracted to pay .1850 cents a quart for milk of 3.7% butter fat content.

In view of the foregoing it is, of course, obvious that the closing of the farm at this institution was prompted by reasons other than the fact that milk was being produced at a cost higher than it could be purchased on the open market.

#### BOARD OF REGISTRATION OF ARCHITECTS

REPORT NO. 52-16

Applications on File: Section 44C of Chapter 696 of the Acts of 1941 states in part as follows:

"The Board may make such rules or by-laws, not inconsistent with law, as it may deem necessary in the performance of its duties."

Past audits have continuously indicated that the list of applicants in the "Pending Application" file appeared to be quite large. Many of these applications have been on file since 1942, the first year of the Board's existence. It was also found that many applicants while actually filing to take the examinations have not done so and as a result, the pending application file continues to increase.

Another factor which contributed to accumulation of pending applications is the number of applicants later found ineligible for registration. While in these cases the fees received were returnable to the applicant upon receipt of a written request, many had not requested a refund and their applications, therefore, remain in the pending file.

To expedite the processing of applications and to keep the number of pending applications at a minimum, the Board at a meeting held on April 17, 1950 voted:

"An applicant would not be entitled to refund of application fee after he had submitted to either interview or written examination."

At a meeting of the Board on October 2, 1950, the following vote was taken:

"All applications on file over two years are voided and no refunds are to be made on same."

As a direct result of this action, the number of applications in the pending file dropped from 178 on September 25, 1950 to 89 on September 6, 1951.



The action thus taken by the Board to reduce the pending file is a substantial improvement. However, in view of the fact that the applicants affected have no knowledge of this action by the Board, it is suggested that the applicants be given written notice of the Board's ruling and be allowed a nominal period in which to file a written request for a refund.

METROPOLITAN DISTRICT COMMISSION

REPORT No. 52-17

Concessions Granted: It was noted that a permit was granted on May 28, 1951 for the sale of refreshments at a swimming pool in the Charles River Reservation in a building to be constructed by the lessee, the building to revert to the Commission at the expiration of the permit. The permit runs for five years from May 28, 1951 with a rental charge of \$100.00 a year, payable annually on the first day of April. It was further noted that this permit was awarded without first securing competitive bidding.

Nantasket Hotel and Tivoli Shelter: On date of audit there was due on these two concessions \$20,047.03 and \$5,030.00 respectively. It was noted that the Commission is attempting to collect these amounts. If these efforts prove unsuccessful, it is suggested they be referred to the Attorney General for collection.

Contracts: Three cases were noted where the contracts were awarded to others than the lowest bidders, as follows:

Contract #698 was awarded to the second lowest bidder for \$50,822.00 because the low bidder of \$41,449.00 withdrew his bid with the explanation that it was due to an error in computation.

Contract #706 was awarded to the second lowest bidder for \$44,273.60 because the low bidder of \$35,466.00 was unable to furnish a bond.

In the instance of Contract #705, it was noted that bids were requested on the basis of Part I and Part II and the two lowest bids were as follows:

	<u>Part I</u>	<u>Part II</u>	<u>Total</u>
Bidder A	\$1,049,372 50	\$1,776,265 00	\$2,825,637 50
Bidder B	996,222 50	2,024,340 00	3,020,562 50

It was noted that this contract was awarded to the lowest combined bidder. The minutes of the board meetings of August 16, 1951 relating to this matter read as follows:

"Voted that the contract be awarded to the lowest combined bidder ..... in the sum of \$2,825,637.50."

The minutes also show that two of the Associate Commissioners "desired to be recorded as in favor of separate awards on parts one and two of this contract to the lowest bidder in each instance".

Contract #694 was executed on June 21, 1951. The completion date specified in the contract was June 15, 1951, which is prior to the date that the contract was apparently executed. It was learned that this contract was for the construction of a parking area opposite the Brighton - Allston Bathhouse and Swimming Pool. Since this parking area is essentially used only during the summer months, the contractor apparently proceeded with construction as soon as he learned that he was the lowest qualified bidder. It was also determined that this performance was with the knowledge and consent of the Park Engineering Department who knew that the work was begun before the date the contract was executed. The bids were opened on May 24, 1951.

Contract #136 for the stabilization of soil around Metropolitan service in Second Street, Chelsea, was awarded to a certain company for \$24,680.00. The work on this project was considered unsatisfactory and the contractor was negligent in the opinion of the Director and Chief Engineer of the Sewer Division and, therefore, no payments were approved. The contractor brought legal action and was awarded a judgment of \$18,360.33 on June 8, 1951.

Contract #169 dated November 3, 1949 provided for the construction of a portion of the Alewife Brook Conduit. Apparently there was some question as to the scope of the contract and the disagreement was taken to court - to date no decision has been reached.

Contract #181 provided the work was to be completed by June 30, 1951, but an extension of time was granted to August 14, 1951. The contract was not completed, however, until August 17, 1951 and liquidated damages of \$15.00 or three days at \$5.00 a day were assessed against the contractor.

MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT No. 52-18

Rifle Range at Camp Curtis Guild - Purchase of Land for Rifle Range: Chapter 291 of the Acts of 1925, as amended by Chapter 558 of the Acts of 1949 provides for a State Rifle Range and establishes the basis for fees to be charged. This statute reads in part



as follows:

"The state quartermaster shall, subject to the approval of the adjutant general, establish a system of fees for the use of said state rifle range."

Prior to the enactment of this law the Quartermaster was required, under the provisions of the 1925 Act, to:

"establish a system of fees sufficient to provide for the entire cost of maintaining said range plus five per cent per annum on the investment of the commonwealth therein."

In this connection attention is called to the fact that during the period between 1926 to 1949 there were only six years in which the fees were sufficient to meet the costs as outlined.

**Parking Permit - State Land Adjoining the Commonwealth Armory:** Chapter 627 of the Acts of 1947 authorized the Adjutant General, with the approval of the Governor - Commander-in-Chief - to permit the use, for motor vehicle purposes, at certain times, of the State land adjoining the Commonwealth Armory in the City of Boston. A permit was issued to the Commonwealth Avenue Parking, Inc. for \$2,000.00 per annum with option of renewal. This permit was signed by the Adjutant General and was approved by the Lieutenant-Governor, acting for the Governor.

A renewal of the permit was granted to run from July 8, 1948 to July 8, 1949 for \$2,000.00. This permit was canceled July 22, 1949 and was not renewed. In its place a permit was granted for the use of the space to the same company for \$30.00 a day for specified days. In addition a charge was made of \$1.00 a day for the use of electricity.

During the period under audit there was no income from this source. It also appears that no permits will be issued in the immediate future as it is the intent to reserve this particular area for military vehicles only.

**Federal Participation Contract:** For the 1951 year service contracts were entered into with the Federal Government whereby the Commonwealth is to be reimbursed 75% of operating costs of certain installations, as follows:

<u>Contract Number</u>	<u>Location</u>	<u>Maximum amount to be reimbursed to Commonwealth by Federal Government</u>
DA-19-093-NG-69	Barnes Field, Westfield	\$21,500 00
W-19-093-NG-24 (1)	Camp Edwards, Falmouth	6,000 00
DA-19-093-NG-71 (2)	Massachusetts Military Reservation at Falmouth	4,000 00
W-19-093-NG-23 (3)	Rifle Range, Camp Curtis Guild at Wakefield	5,640 00
DA-19-093-NG-66	Commonwealth Armory, Boston	
	Facilities Used by Certain Air National Guard Units	12,000 00
W-19-093-NG-16	Commonwealth Supply Depot at Natick	36,150 00
W-19-093-NG-22	Fort Devens Airfield, Ayer	6,000 00
DA-19-093-NG-68	Aviation Facilities at Logan Airport, East Boston	27,500 00
W-19-093-NG-18	Commonwealth Maintenance Depot, Whittemore Center, Ayer	13,500 00
DA-19-093-NG-67	601st Signal Light Construction Company, Worcester	6,000 00

(1) Contract terminated at option of U. S. Government on November 15, 1950.

(2) The term of contract is November 16, 1950 to June 30, 1951.

(3) In a letter to the National Guard Bureau dated January 9, 1951 the Adjutant General requested authority to waive reimbursement by the Commonwealth of Massachusetts

of \$4,600.00 under service contract W-19-093-NG-23 for expenditures at Camp Curtis Guild and in lieu thereof requested that the same amount (\$4,600.00) be authorized under federal project #315 (Repairs and Utilities) for certain repairs at this site.

Accounts Receivable: The balance of the accounts receivable control account per the general ledger was \$3,921.38 on September 17, 1951. This amount exceeded the total of the individual balances in the subledger by \$678.50 and was determined to be the accounts canceled and charged off as uncollectible through the subsidiary ledger for which no entries had been made in the general ledger. Entries in the subsidiary ledger are made in the State Quartermaster's Office and a monthly statement showing the billings and cash receipts is submitted to the Adjutant General's Office as a basis for the entries in the general ledger. It is suggested that this monthly statement should also include all charge offs and cancellations.

A review of the inactive accounts indicated that charges totaling \$2,150.00 for the rental of the National Guard Hangar at East Boston have remained unpaid since 1947. This account should be referred to the Attorney General for disposition as soon as possible.

#### FOXBOROUGH STATE HOSPITAL

REPORT No. 52-21

Grain Inventory: A test inventory of certain items, including goods in each category of stock, was taken on date of audit. With the exception of the grain accounts, which indicated a net shortage of \$253.40, only minor variances were noted.

In connection with the grain it was noted that it is stored in a separate building, apart from the central storeroom. It has been the institution policy for the Head Farmer to supervise the grain issue. The Head Farmer keeps a memorandum record of the issues and periodically goes to the Institution Steward's office where a regular requisition is prepared. When the institution takes its regular monthly inventory the grain is not included.

In taking the inventory on the date of audit it was also noted that the grain was not stored in uniform piles which made the taking of the inventory a difficult process. This matter was discussed with the Steward and steps were immediately taken to correct the entire situation. The grain was uniformly piled, all locks on the doors of the storeroom were changed and the storekeeper alone now has access to the storeroom. He will issue items on requisition only. Counts of grain will also be included in future monthly inventories. The Steward also felt that the shortage indicated was due to an issue in June 1951 for which no requisition had been made out at the time.

Farm - Missing Hens and Eggs: An examination of the 1950 farm records indicated losses due to theft of 69 hens and eggs valued at \$59.20. It was learned that this matter had been reported to the Second Assistant Commissioner of the Department of Mental Health and the local police at that time.

The records further indicated that another theft occurred on the night of March 25, 1951, at which time 48 hens and two cases of eggs were missing.

Following the second break all locks were changed on the farm poultry plant. A system of regular visits by the institution watchman and the local police was instituted. In addition large boulders, iron rails, etc., have been placed in the access road which was apparently used by the person or persons committing the theft.

Canteen Variance: A comparison of the physical inventory with the book inventory showed the physical inventory to be \$176.37 short of the book inventory. During the period under audit adjustments made by the institution totaled \$267.67.

The Steward was of the opinion that because it had been the practice to display merchandise for sale on the tops of counters in the canteen, it is possible that employees or patients may have taken some of these items. Because of this possibility all merchandise is now kept in enclosed areas with the exception of greeting cards.

The canteen clerks have also been cautioned to check and verify all merchandise received to insure accuracy. Despite the adoption of the aforementioned precautions the shortages seem to continue. The Steward stated that he will make every effort to locate the difficulty and take steps to correct it.

Deficiencies - 1951 Fiscal Year's Maintenance Appropriation: Deficiencies were noted at this institution applicable to the 1951 Fiscal Year as follows:

Heat and Other Plant Operations

\$1,059 12



Office and Administrative	\$ 7 04
Food	1 11
Repairs and Alterations	15 96
	<u>\$1,083 23</u>

The deficiency in the Heat and Other Plant Operation classification represented 16,920 gallons of fuel oil valued at \$1,059.12.

It was understood from the Steward that this deficiency occurred due to the increase in the price of fuel oil and the fact that he did not transfer sufficient funds from other classifications to cover this increase. Deliveries were stopped as soon as it became apparent that there was not sufficient funds to cover payment.

#### NORTH READING STATE SANATORIUM

REPORT No. 52-22

**Materials and Supplies:** A test check of the materials and supplies inventory taken in connection with this examination indicated larger variances than would normally be found in an institution of this type.

Attention is called to the fact that the Comptroller's Bureau Accounting Manual states:

"Inventories of stock ledger items are to be taken so as to have a complete inventory of all the active accounts at least four times during the year. The inactive accounts should be inventoried at least three times during the year."

It was noted, however, that this suggestion has been ignored even though the variances between the physical and book inventory have been a subject of comment in audit reports for the past several years. It is again suggested that immediate steps be taken to control these larger variances.

It was also noted that there did not appear to be an adequate internal control over the materials and supplies. It is recommended that all materials and supplies be physically kept in the possession and control of the steward and storekeeper until actually requisitioned and issued.

**Materials and Supplies Adjustments:** The Comptroller's Bureau Accounting Manual specifically states:

"An adjustment of a single item amounting to \$100.00 or more must be approved by both the superintendent and the department."

In this connection six instances were noted where adjustments were made on single items with values in excess of \$100.00 without the proper approvals.

It is suggested that future adjustments of this size be referred through the proper channels for necessary approvals.

**Employee Housing:** Attention is called to the fact that one single family house which is supposed to rent at \$120.75 per month, and a duplex house to rent at \$93.75 per month for each apartment, were accepted from the contractor on March 21, 1951. Since that date, however, only one of these three apartments has ever been rented.

It was learned that there is no inclination on the part of the hospital employees to rent apartments or homes at such high rentals.

It is suggested, that this entire arrangement be reviewed taking into consideration a possible revision of the rates so that the units may be rented. It is further suggested that prior to the planning of any further construction of dwelling units that the costs of such construction be held to limits that will provide rents which the employees may be able to pay.

**Garage Rentals:** It was noted that the total cash collections for garage rentals during the period under examination was only \$289.50. Garages are rented to employees for only \$1.00 per month. It is suggested that this matter be surveyed, as it is possible that higher rentals might be paid.

In this connection the previous audit report commented as follows:

"It was further noted that there are several employees who are allowed the use of garages without paying rent. Inasmuch as all maintenance, as part of salaries, has now been discontinued, it is suggested that these employees should also pay the established garage rate in effect."



This condition apparently still prevails, and it is therefore again suggested that these employees be requested to pay the rates in effect.

Canteen: In this connection the previous audit report stated:

"A canteen is maintained at the sanatorium by a disabled war veteran. He is not charged for heat, light or rent. A survey of his available stock for sale indicates a substantial inventory. The canteen is apparently well operated and is strictly supervised by the Superintendent of the institution.

"It is recommended that the matter be studied and that consideration be given to making a nominal charge for rent, light and heat."

As no change has been made in this situation, the matter is again offered for consideration.

Rheumatic Heart Patients: It was noted that commencing with July 1, 1951 there were no longer any rheumatic heart bed patients. It is understood that patients with this ailment will not be admitted to this institution.

Farm Audit: As of June 30, 1951 the farm operations at this institution were discontinued.

It was noted, however, that the farm reports for the farm year ended December 31, 1950 and for the six months of the 1951 calendar year had not been prepared nor submitted to the proper State agencies. Because of this situation the examination of the farm accounts could not be completed in conjunction with this examination. It is suggested that steps be immediately taken to complete these records.

#### STATE TEACHERS COLLEGE AT LOWELL

REPORT No. 52-23

Key Fund: This fund has now been discontinued and the balance of \$.80 was remitted to the Treasurer and Receiver General as miscellaneous income.

Accounts Receivable: Receipts are given to the students when they pay the necessary fees. Daily these receipts are added and only the total is entered on the cash book. It is recommended that an individual entry be made on the cash book for each transaction. It is also recommended that when the monthly journal entry covering charges to accounts receivable is made, that a list of the students represented should be made a part of it.

It was noted that a trial balance of the accounts receivable ledger is not maintained.

General: It was noted that the general ledger has not been currently posted.

#### MYLES STANDISH STATE SCHOOL

REPORT No. 52-24

Accounts Receivable: An old account receivable is due from a former employee who is no longer connected with the school, and is now long overdue.

In accordance with a suggestion in the previous audit report this account has been referred to the Attorney General for collection. It was noted, however, that this account has not been transferred to the Suspense Accounts Receivable Account.

Farm Accounts: It was noted that all suggestions with respect to these accounts made in the previous audit report have been complied with.

School Lunch Program Fund: This fund was established with money provided by the Federal Government to supplement the rations of patients.

Paroled Patients' Funds: The previous audit report included the following:

"Individual bank accounts for patients on parole have not as yet been opened. It is understood that this arrangement is pending until a permanent superintendent is appointed."

As a permanent superintendent has not as yet been appointed, no action has as yet been taken to establish individual accounts.

**Patients' Funds:** The balance in this fund, including parolees' funds, as of the date of audit totaled \$21,630.63. As all of these funds are on deposit in a checking account, it is suggested that a substantial portion of this balance be transferred to a savings bank account in order that interest may be earned.

**Patients' Valuables:** It was noted that the patients' valuables are not yet being recorded on the patients' individual cards.

**Canteen Account:** No cash book is being maintained to record canteen transactions. It is, therefore, suggested that a book of this nature be installed.

## DEPARTMENT OF PUBLIC HEALTH

### GENERAL DEPARTMENT

REPORT No. 52-25

**Income - Hospital Licenses:** It was noted that certain suggestions with respect to Hospital licenses which were included in the previous audit report have been carried out. In this connection attention is called to the following:

Provisional approvals are no longer given.

A permanent record of the serially numbered license forms is now being maintained.

A card index of hospitals is kept in which the license numbers have been entered.

**Financial Report - Cash Statement:** The previous report suggested that the cash statement section of the monthly financial report be divided into two sections showing the cash detail of both Federal and State accounts. The Comptroller's Bureau did not agree with this suggestion, and, in a letter to the Commissioner of Public Health, dated January 25, 1951, indicated that the present methods be continued.

**Inventories:** Previous audit reports have commented on the inventory of supplies at the biologic laboratory in Jamaica Plain and have suggested that a control account be installed in the Department's general ledger. With respect to this the Comptroller did not agree, and indicated that the additional work entailed together with probable increased costs would not warrant such an account.

In this connection it was noted that the value of this inventory on August 17, 1951, as submitted by the Inspector of Biologic Records aggregated \$46,827.49.

**District Offices:** The district offices, with the exception of the North Metropolitan Area office in Boston, were not visited in connection with this examination. The offices outside of Boston were mailed letters asking if any cash or checks representing license fees for nursing or boarding homes were on hand. Only one office had such a check on hand on the date of audit and it was properly cleared within a few days.

**Agreement with Red Cross:** An agreement between the Department of Public Health and the American Red Cross was continued during the 1951 Fiscal Year on a reimbursement basis. Reimbursements for this period amounted to \$132,727.55. Unpaid reimbursements for the period July 1, 1951 to September 30, 1951 totaled to \$22,448.10 and were unpaid as of October 15, 1951.

Attention is directed to the fact that this foregoing unpaid amount did not appear as an account receivable on the records of this Department.

**Forsyth Dental Project:** During the 1950 Fiscal Year a Federal Grant of \$70,000.00 was allotted to the Commonwealth for the purpose of training dental hygienists. This program was started at the Forsyth Dental School in September of 1949 and continued through September 1950. This dental program was repealed by Chapter 667 of the Acts of 1950.

The following shows the schedule of expenditures of this Federal Grant during its existence:

Salaries - Permanent	\$11,994 00
Salaries - Permanent - Reimb.	4,216 20



Salaries - Non-Employees	\$ 3,490 50
Laboratory, Medical and General Care	15,867 55
Travel and Automotive Expense	144 86
Advertising and Printing	6 62
Repairs, Alterations and Additions	2 22
Special Supplies and Expenses	11,348 75
Office and Administrative Expenses	269 80
Equipment	14,770 56
Total	<u>\$62,111 06</u>

In addition to the above expenditures the sum of \$75.00 remains encumbered to be paid in the 1951-1952 year for moving equipment. The balance was transferred to other Federal Grants.

1951 Fiscal Year Liability not Recorded on Books: An audit of the charges to the appropriation account for "Payment of Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals" for the 1951 fiscal year indicated that they included bills totaling \$437,105.59 applicable to the 1949 calendar year. On or before March 1, 1951 the Division of Tuberculosis and Sanatoria received from the Cities and Towns the Subsidy Bills for the year ended December 31, 1950. After verification by the Division, these Bills amounting to \$454,611.95 were sent on May 3, 1951 to the Department's Fiscal Office for final verification and payment. The Department records on June 30, 1951 indicate that no entry was made on the books to encumber the Subsidy Bills for the 1950 calendar year since the 1951 appropriation account was expended to take care of the Subsidy Bills for the 1949 calendar year.

Quarterly Reports Required of Massachusetts Manufacturers of Ice Cream: In checking the ice cream permits issued by the Division of Food and Drugs to out-of-state manufacturers who sell ice cream in Massachusetts, it was learned that their permit fee covers the fiscal period March 1, to February 28, whereas the permit fee as paid is computed on the number of gallons sold in Massachusetts during the previous calendar year. No quarterly sales reports are submitted to the Department of Public Health by these out-of-state manufacturers, making it impossible to verify the gallonage sold in the previous year. In this connection Massachusetts manufacturers of ice cream pay a license fee to their local Boards of Health, and this license fee also covers the fiscal period March 1, to February 28. However, it is computed on the number of gallons produced in Massachusetts during the previous calendar year. In order that the local Boards of Health may verify the accuracy of the license fees paid, all Massachusetts manufacturers of ice cream are required to submit quarterly production reports as follows:

## "II Filing of Records of Production.

In order to enable the Board of Health to compute the necessary fee for a license, each holder of a license for wholesale manufacture shall keep a daily record of the quantity of frozen desserts and ice cream mix produced and shall on the fifteenth day of February, May, August, and November mail to the Board of Health an accurate statement of such quantities, computed as gallons, manufactured during each of the three preceding calendar months. This statement shall be made under penalty of perjury."

To provide the Department with a source of internal check on ice cream permit fees it is recommended that the present regulations be amended to require out-of-state manufacturers who sell their products in this State to submit quarterly sales reports on a calendar year basis.

Notice Inviting Proposals on Repair Project in Excess of \$1,000.00 not Posted: It was noted that the Division of Communicable Diseases paid the sum of \$2,368.81 to a roofing contractor in August, 1951 for repairs to the roof of the Bussey Building at 281 South Street, Jamaica Plain. In connection with this item attention is directed to the fact that the Department failed to post a notice inviting proposals as required by Section 8A of Chapter 29 of the Tercentenary Edition of the General Laws as amended. It is recommended that the Department take action to prevent recurrences of matters such as this.



## TAUNTON STATE HOSPITAL

REPORT No. 52-26

**Accounts Receivable:** All outstanding Accounts Receivable are on a current basis, with two exceptions. One of these for \$10.00 is owed by the State Department of Education and has been outstanding for several years. Since all attempts to date to collect this account have failed, it is suggested that permission be requested from the Department of Mental Health to dispose of it.

**Rents:** It has been the practice at this institution to make employees' weekly pay roll deductions for house and room rent. The weekly rate was established by multiplying the monthly rate by 12 and dividing by 52. This method is not accurate as deductions in four week months do not equal the established monthly rate, and deductions in five week months exceed the established monthly rate.

Because of this arrangement, it is necessary to total the weekly deductions whenever an employee leaves the employ of the institution to ascertain that the amount deducted has been sufficient.

If a weekly rental rate were established by the Commission on Administration and Finance, it would eliminate the necessity of making the aforementioned computations and would certainly make for improved accounting procedures in this respect.

**Farm Accounts:** The farm report indicated a loss of \$26,377.64 for the 1950 year as compared with a loss of only \$15,746.90 for the 1949 year. The larger loss reported in 1950 was attributed to the high costs of grain and supplies, large expenditures for new equipment, a substantial increase in the number of heifers which are non-productive, and the low prices which were established by the Comptroller's Bureau for the farm products.

## DIVISION OF MILK CONTROL

REPORT No. 52-27

**General:** The previous audit report includes several references to the Dairy Bonding Section and to the Dairy Bonding Law. Chapter 791 of the Acts of 1950 which was approved on August 16, 1950 with an "Emergency Preamble" transferred certain functions of the Milk Control Board pertaining to the Bonding of Milk Dealers to the Department of Agriculture. In this connection Chapter 421 of the Acts of 1939 was repealed, and this Board returned to the Department of Agriculture all its records and other information relative to the bonding of milk dealers. This same statute also transferred the personnel and the appropriations for their salaries to the Department of Agriculture.

The Milk Control Board was primarily created to protect the financial interests of certain Massachusetts milk producers, and included in its functions the Board regulates and audits prices paid milk producers. The Board is further responsible for the adequacy of the supply of fresh milk for consumers and dealers in the areas within the Commonwealth, and under its control.

In this connection the Milk Control Board Inspectors audit the records of certain producers and dealers.

The Milk Control Board, on the date of this audit employed fifteen individuals in its auditing sections as follows:

Supervising Inspector of Milk Records	1
Senior Inspectors of Milk Records	3
Inspectors of Milk Records	7
Milk Control Investigators	4
	<hr/>
	15
	<hr/>

As nearly as could be determined the main purposes of the auditing section are to determine whether the milk dealers buying from Massachusetts producers are properly accounting and paying for milk purchased in accordance with the official orders of the Milk Control Board and includes the following functions:

1. Conformity to price regulations
2. Satisfactory payments to producers when due
3. Adequacy of bond protection
4. Correctness of assessment payments

These auditors physically inspect and verify all payments of the milk dealers to producers within their jurisdiction. Items in transit are verified in subsequent audits. Determination of the adequacy of a bond is wholly dependent upon payment to producers.

From the foregoing it is, of course, obvious, that sections of the Milk Control Board and the Dairy Bonding Section of the Department of Agriculture have certain common purposes. This condition is covered by the common and duplicating laws and regulations which are indicated by Section 42H of Chapter 94 and Section 6 of Chapter 94A of the General Laws (Ter. Ed.). These laws have served to confuse the personnel administering them and also those milk dealers and milk plant operators for the benefit of whom the laws were originally put into effect.

Correspondence between the Chairman of the Milk Control Board and the Commissioner of Agriculture, and between the Chairman of the Milk Control Board and the Department of the Attorney General indicates constant controversy and difficulty relative to the bonded milk dealers who purchase milk from Massachusetts producers. In this connection the following copies of correspondence found in the files of this agency, which are self-explanatory, are shown:

C O P Y

June 12, 1951

Mr. Henry T. Broderick  
Commissioner of Agriculture  
41 Tremont Street  
Boston, Massachusetts

Dear Commissioner:

The Massachusetts Milk Control Board is in the process of receiving applications from milk dealers required to be licensed under the Milk Control Law for the license year July 1, 1951-June 30, 1952.

Under the provisions of the Milk Control Law, Section 6 (10), the Board may decline to grant or renew a license, or may suspend or revoke a license already granted, if; "The bond or other evidence of financial responsibility required of an applicant is unsatisfactory to the Board."

In order to assist the Board in the proper administration of licensing dealers under the Milk Control Law, I would appreciate receiving from you a list of all milk dealers buying milk from Massachusetts producers, with the amount of bond and type of collateral filed with you.

Thanking you for your cooperation, I am

Very truly yours,

CHAIRMAN  
MILK CONTROL BOARD

FDD/joh

C O P Y

THE COMMONWEALTH OF MASSACHUSETTS

DEPARTMENT OF AGRICULTURE

41 Tremont Street, Boston 8.

June 19, 1951

Hon. Francis D. Dailey, Chairman  
Milk Control Board  
41 Tremont Street  
Boston, Massachusetts

Dear Mr. Dailey:

We have your letter of June 12th requesting a list of all milk dealers purchasing

milk from Massachusetts producers, with the amount of bond and type of collateral filed with our Department.

This concerns the matter formally discussed with you and Mr. Collins, our Senior Bonding Investigator, at our recent conference.

It has been pointed out to me that, as Commissioner of Agriculture, I have the responsibility of determining the bond governing milk dealers and that I shall be the custodian of the bonds and collateral therefor; (see Chapter 94, General Laws, Sections 42A to K). It has also been pointed out that Chapter 791 of the Acts of 1950 provides for the return of records and information to our office from your Board, said return being for the purposes of consolidating the functions of the Department.

With these thoughts in mind, I am constrained to answer your request in the following manner:

We shall forward the information you request insofar as dealers audited by your Board are concerned.

As to dealers not audited by your Board and who are in Federal Areas and controlled by Federal audit, we must advise that we cannot give you the information desired but will continue, as heretofore, the practice established by agreement with the Secretary of Agriculture in Washington and the Commissioner of Agriculture in this Commonwealth. We shall furnish your Board a statement that the dealers are properly bonded. On individual cases, where the facts warrant, we shall furnish such information as may be necessary to collaborate properly the functions of our Department and your Board.

Trusting that we may have the continued good will and cooperation of your Milk Control Board, I am,

Very respectfully yours,

/s/ Henry T. Broderick

Henry T. Broderick  
Commissioner

HTB:CMB

COPY

July 16, 1951

Hon. Francis E. Kelly  
Attorney General of the Commonwealth  
State House  
Boston, Massachusetts

Dear Sir:

Section 5 of the Milk Control Law, G. L., Chapter 94A (inserted by St. 1941, C. 691), requires that all persons before engaging in the milk business in the Commonwealth obtain a license from the Milk Control Board. Section 6 of the same Act sets forth in 13 paragraphs various reasons on account of any one of which the Milk Control Board is empowered to decline to grant or renew, or to suspend or revoke such a license. The tenth such reason, set forth in Section 6(10), is stated thus:

"(10) That the bond or other evidence of financial responsibility required of an applicant is unsatisfactory to the Board."

Under earlier legislation, usually known as the Mass. Dairy Bonding Law, which was incorporated in the General Laws, Chapter 94, (as Sections 42A through 42K) by St. 1933, Chapter 338, as amended, no person buying milk or cream from Massachusetts producers may operate a milk plant or manufactory without having obtained from the Commissioner of Agriculture a milk plant operator's license, which license



the Commissioner is empowered to grant only if the dealer files with the Commissioner bond or other security in amount as provided in such statute (Sec. 42A). The amount of such bond is determined under Section 42B, but the amount so determined, within certain limits may be increased by the Commissioner of Agriculture under Sec. 42D.

Chapter 421 of the Acts of 1939 did three things: (1) It directed the Commissioner of Agriculture to make available to the Milk Control Board all records relative to the bonding of milk dealers, (and such records were from time to time made temporarily available to the Milk Control Board upon request); (2) It empowered the Commissioner to assign bonding investigators to the service of the Milk Control Board (but this power was never exercised); and (3) It provided that all expenses of administering the Dairy Bonding Law were to be charged to the Appropriations for the Milk Control Board.

By Chapter 791 of the Acts of 1950, effective August 16, 1950, Section 421 of the Acts of 1939 was repealed, and the Milk Control Board was directed to return to the Commissioner of Agriculture "all records and information relative to the bonding of milk dealers". The only records and information relative to the bonding of milk dealers which was then in the possession of the Milk Control Board were certain financial accounts concerning the amount of bond and other security from time to time held by the Commissioner under the Dairy Bonding Law. By ruling of the Comptroller these accounts were required to be kept by the Milk Control Board as a part of its financial record, and Milk Control Board employees made monthly entries of such figures as were directed by the Commissioner's office. These records were delivered to the Commissioner of Agriculture promptly after the passage of St. 1950, c. 791.

All Milk Control Board licenses by statute expire June 30, and new licenses must be issued or denied for the ensuing year. This involves annual re-examination by the Board of approximately 1500 milk dealer licenses. It is the understanding of the Board that such re-examination includes re-examination of the sufficiency of the bond or other evidence of financial responsibility as provided by Section 6 (10) of the Milk Control Law. In order to facilitate such re-examination, I, on behalf of the Milk Control Board, and after previous conference with the Commissioner of Agriculture, advised the Commissioner by letter dated June 12, 1951, that the Board would appreciate information as to the amount of bond and type of security filed with him by each operator of a milk plant or manufactory. A copy of this letter is enclosed.

This letter was sent to the Commissioner because the Board believes that:

(1) The information requested, not being made confidential by statute, is available as a public record. (The only provision for treating information as confidential is in Section 42G, and applies only to general information not relating to the purposes of the Dairy Bonding Law.)

(2) Even if the records were not so available, it being the duty of the Milk Control Board under G. L., c. 94A, Section 6(10) to satisfy itself that the bond or other evidence of financial responsibility is satisfactory, efficient discharge of public business would, in the absence of statutory prohibition against disclosure, dictate its free interchange between different agencies of the state where pertinent to the proper performance of their statutory duties. In accordance with this conviction the Director of Milk Control by letter dated April 25, 1949, notified the Senior Dairy Bonding Investigator, Department of Agriculture, that all pertinent information in the possession of the Division of Milk Control would readily be made available to him upon request.

The Commissioner of Agriculture by letter dated June 19, 1951, granted the Board's request with respect to certain dealers who purchase milk from Massachusetts producers, but denied it with respect to all dealers who are required to pay to their producers minimum prices fixed or established pursuant to Federal milk marketing orders issued by the United States Secretary of Agriculture. Such orders have been issued by the United States Secretary of Agriculture regulating the handling of milk in the Greater Boston, Lowell-Lawrence, Fall River, Spring-

field and Worcester markets. A copy of the Commissioner's letter is enclosed.

The Board sees no validity in the distinction taken by the Commissioner of Agriculture. It is the duty of this Board to license all dealers, and, in its view its responsibility to satisfy itself of the financial responsibility of its licensees, runs to all Massachusetts producers, without regard to whether the minimum prices for their product are fixed by Federal or State order.

While the Board does not regularly audit the producer payment records of those dealers who are subject to Federal orders, this practice is based on expediency, and the Board's conception of efficiency and economy. The Board has authority to audit all dealers /G. L. , c. 94A, Sections 13 (a) and 13 (e)/ in the Commonwealth, and does from time to time for special purposes audit numerous dealers who are subject to Federal regulation.

It is further the view of the Board that under the hearing procedure provided in G. L. , c. 94A, Sections 16 through 19, the Board could by issuing a notice of hearing on the application of any dealer for license, in such hearing properly require the production of the information requested. Such a procedure, however, is not only unduly cumbersome, but is obviously an unsuitable and undesirable method to use for the transfer of information between agencies of the Commonwealth.

The Board therefore requests your opinion on the following questions:

Is the Milk Control Board for the purpose of reviewing in connection with their respective applications for milk dealer license under the Milk Control Law for the ensuing license year, entitled to disclosure by the Commissioner of Agriculture of the amount of bond and type of security filed with him pursuant to G. L. , c. 94, Sections 42A through 42K, as amended by milk plant or manufactory operators purchasing milk from Massachusetts producers, whose minimum prices to producers are established by or pursuant to Federal milk marketing order, as well as those whose minimum prices to producers are fixed or established by or pursuant to order of the Milk Control Board?

As the Board is anxious to expedite and facilitate handling of the pending applications for licenses for the license year which began July 1, 1951, we would respectfully request your early consideration of this inquiry.

Respectfully yours,

CHAIRMAN  
MILK CONTROL BOARD

AEW  
Encs.

C O P Y

THE COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF THE ATTORNEY GENERAL  
STATE HOUSE, BOSTON 33

Francis E. Kelly  
Attorney General

August 24, 1951

Mr. Francis D. Dailey, Chairman  
Milk Control Board  
41 Tremont Street  
Boston 8, Mass.

Dear Sir:

You have recently asked Attorney General Francis E. Kelly for an opinion interpreting the effect of the law in relation to bonds filed by milk dealers with



the Commissioner of Agriculture. Your request has been submitted to me for study and reply.

In the process of accumulating information necessary for the preparation of the opinion, I discussed the matter with the Commissioner of Agriculture. I indicated to him that although St. 1950, c. 791 repealed St. 1939, c. 421 and directed the Milk Control Board to return to the Commissioner of Agriculture all records and information relative to the bonding of milk dealers, nevertheless, G. L. c. 94A, Sec. 6 (10), imposed a certain duty upon said board (to ascertain whether the dealer's bond or security was satisfactory before granting or renewing a license) which could not be performed without some cooperation on the part of the commission. I also stated that whatever bonds or evidences of financial responsibility were on file with the commission might even be considered public records; so that if a producer before selling to a milk dealer wished to determine the latter's financial responsibility he could examine the bond or security on file.

In the course of the discussion the Commissioner of Agriculture stated that he has always been willing to permit an examination of the bonds or other securities as such. It was other information which he did not feel free to reveal. Under those circumstances I think there is no need to make any profound search of the law with respect to your request. If you are afforded the opportunity to examine any dealer's bond or other evidence of financial responsibility, and make a copy thereof, you should have sufficient information for action under said section 6(10) of Chapter 94A.

Cordially yours,

/s/ H. William Radovsky  
H. WILLIAM RADOVSKY  
Assistant Attorney General

P. S. I am sending a copy of this letter to Commissioner Broderick.

From the foregoing, it is obvious that an exchange of information and ideas would benefit both the Milk Control Board and the Department of Agriculture, and it is therefore suggested that immediate steps be taken to see that the necessary measure for this cooperation indicated are taken.

**Transfer of Certain Functions:** Attention is called to the fact that the control accounts of the secured notes and surety bonds, savings accounts assigned, life insurance policies and real estate mortgages assigned, were transferred from the Milk Control Board to the Department of Agriculture in accordance with a letter of instructions from the Comptroller's Bureau dated November 14, 1950. In this connection the previous audit report included the following:

"In view of the foregoing the following are suggested for study in order that better efficiency will prevail:

1. That the Milk Control Board assume all the functions of the Dairy Bonding Section.
2. That the Milk Control Board and the Dairy Bonding Section both come under the active control of the Department of Agriculture.
3. Administration and office procedure should be established where the functions of the Milk Control Board and the Bonding Section of the Department of Agriculture could be more closely coordinated so that the administration of the Milk Control Laws would be more closely integrated."

As no change has taken place in these matters, the foregoing suggestions are again offered for consideration.

**Assessments:** The audit reports of the past several years have discussed the fact



that one of the most important financial activities of the Milk Control Board is the collection of monthly assessments.

Attention is called to the fact that the unpaid assessments as estimated by the review of the dealer's assessment accounts as of the date of audit totaled \$10,938.54 and were analyzed as follows:

No. of Dealers	No. of Months Owing	Estimated Amount Due	Percentage
126	1	\$ 5,040 02	.40
89	2	1,058 94	.08
69	3	1,096 88	.09
27	4	467 70	.04
12	5	2,173 93	.17
6	6	57 39	.01
6	7 and over	1,043 68	.08
335		<u>\$10,938 54</u>	<u>.87</u>
108	Field Audits	1,615 38	.13
<u>443</u>		<u>\$12,553 92</u>	<u>1.00</u>

The greater part of the first item which represents one month's unpaid assessments was cleared before November 10, 1951.

The item of \$1,615.38, which was established by field audits of milk dealers records, comprises gross debit balances of \$1,915.93 and credit balances of \$300.55. The individual items of which this balance consists in the main represents small balances.

Verification notices were mailed to approximately 33% of the dealers concerned and of these only 51% were acknowledged and returned.

It is again suggested that a control account be set up in the general ledger for the better accountability and control of these unpaid items.

**Assessment Audits:** When a dealer audit is made by Milk Control Board Inspectors an audit is also made of the paid assessments. Only one large dealer has been audited for assessment payments for the period covered by this audit. The audit was made simultaneously with a dealer audit of a branch office located in a State controlled area, records of which were kept at the main office located in a Federal controlled area. Apparently this was also the only assessment audit made of a dealer in a Federal area.

After a new pending memorandum of agreement between the Federal Secretary of Agriculture and the Milk Control Board has been approved, it is possible that reports may be obtained from the Market Administrator in the Greater Boston Marketing Area furnishing information on milk sales of individual dealers located in Federal Areas and which are subject to Federal audit. The information when available will be helpful in determining whether dealers in Federal areas are paying the correct assessment amounts.

It is believed that assessment audits are important and necessary in order to determine that dealers are paying correct amounts. The reason advanced by this Board for not making assessment audits on all dealers in State controlled areas was because of a shortage of auditing personnel.

**Arrearages:** It was noted that, as of the date of audit, seventeen dealers were in arrears for payments to producers in the amount of \$15,908.85.

According to records in the Bonding Section, four of these dealers owing \$6,832.92 were not sufficiently bonded to cover their arrearages, nine dealers owing \$7,147.71 were sufficiently bonded, and four dealers required no bond.

Two dealer audits completed by Board inspectors while this audit was in progress indicated that \$904.34 had been paid to producers on account of arrearages which were included in the foregoing amounts. Letters which were received by the Board from seven other dealers during this period also indicated that they had paid a total of \$7,885.40 of arrearages, but the amounts so paid had not been verified to that time by dealer audits.

As of the date of the previous audit \$743.54 was due to producers from five dealers who were out of business, the bonds of whom had been liquidated to satisfy producers. As of October 22, 1951 only \$93.59 of this amount had been paid and four dealers were still owing the balance of \$649.95.

**Advances to Employees:** It is suggested that all advances made to employees be returned and cleared by June 30th of each year. It was noted that returns of advances of two employees had not been made June 30, 1951. This is contrary to instructions set

forth in the Comptroller's Bureau Accounting Manual.

**Milk Dealer's License Applications:** It was noted that many of these applications were neither completely nor properly filled out, and that answers to many pertinent questions were omitted. It is suggested that dealers be instructed to completely fill out the application properly.

**Milk Dealer's License - Date of Issue:** At the present time the date of issue of these licenses does not appear on any specific accounting record maintained by the Board. It is suggested that, in order to facilitate the audit of these licenses, the date of issue be typed or stamped on the copy retained in the files.

**Milk Dealer's License - Out-of-State:** An inquiry was made as to dealer license coverage for Out-of-State dealers. In this connection it was noted that the Board officials indicated that all such dealers have been properly covered by such licenses. It was further explained that it would hardly be possible for Out-of-State dealers to do business in Massachusetts without such a license, as protests would most certainly develop from Massachusetts dealers doing business in those specific areas.

**Dealers Not Licensed 1951-1952 Year:** A total of twenty-six dealers who appeared on the October 22, 1951 active list had not yet been issued a license for the current license year. Of these, twenty were located in State controlled areas, three in Federal Area 17, and three in Area 18. While the audit was in progress, it was noted that seven dealers have paid the required license fees, and inspectors have been assigned to check the others.

**License Income - Cash Book Entries:** It is also suggested that license income entries in the cash book for license fees received for a prior year indicate the particular prior year for which the fee is paid.

**Reduction in Number of Employees:** During this audit period the number of employees of this Division has been decreased from 42 to 33. This was occasioned by the additional number of milk marketing areas which were taken over by the Federal Milk Administrator. One of these employees is on a special pay roll in accordance with Chapter 586 of the Acts of 1950, awaiting transfer.

**Licenses Before the Board of Statute Violations:** During this audit period there were 38 cases of violations for Statute for which licenses could have been revoked or applications for licenses denied. Thirty-four cases have been disposed of, as follows:

- 1 - License Revoked
- 3 - Conditional Licenses Granted
- 3 - Granted Unconditionally
- 26 - Cases Involving License Revocations Charges  
were Filed
- 1 - Case Dismissed
- 34

Twenty-nine of the foregoing cases, involved failures to file assessment returns and nine were for failure to pay producers as is required.

**Federal Control:** During the period from October 9, 1950 to October 22, 1951, according to information from the Director of the Board the following towns and cities previously under control of the State Board were transferred to Federal control:

Groveland  
Haverhill  
Merrimac  
West Newbury

During this same period the Town of Northbridge was transferred back to State control.

**Milk Market Areas:** The Milk Control Board has divided the Commonwealth into 19



General Marketing Areas. Four of these are now under the control of the Federal Milk Market Administrators. A fifth area, No. 11AB is controlled jointly by both State and Federal agencies, but is administered by the Federal Agency only. Milk Marketing Area No. 18 (New Bedford) is administered by a Milk Control Board Order #G-18-208 as amended.

A test check was made of the audits performed by the field audit staff of the Milk Control Board, and the following is a summary of the cases reviewed in these thirteen State controlled areas and area 11C:

Number of Licensed Dealers in Areas (1951-1952)		846
Classification:		
Producer Distributors	355	
Producer Dealer	227	
Intermediate Dealers	66	
Straight Dealers	<u>198</u>	<u>846</u>
Classification as to Licenses:		
\$5.00	609	
2.00	83	
.50	113	
Pending Licenses	<u>21</u>	
	826	
Dealers not Licensed as of October 22, 1951		
	<u>20</u>	<u>846</u>
Classification as to Dealers Audited:		
No Audits Made	596	
Audited	<u>250</u>	<u>846</u>

Of those audited 31 of the 250 had insufficient bonds amounting to approximately \$19,300.00

Of the 31 foregoing dealers with insufficient bond coverage totaling approximately \$19,300.00, it was noted in ten cases the total deficiency comprised \$18,000.00. The remaining 21 dealers have smaller deficiencies totaling only \$1,300.00.

Milk Market Area 18: Milk Market Area 18 is administered under the Milk Control Board Official Order No. G 18-208 as amended issued in 1940. The administrator is appointed by the Milk Control Board. This area differs from the other areas controlled by the Milk Control Board in that it is a market wide pool which accounts for and pays for milk produced in this area. The membership of the pool is composed almost entirely of the members of the New Bedford Milk Producers Association, a producers co-operative bargaining association. It is a highly organized area and a homogeneous market because of the common interests of both producers and dealers. Except for the shortages during World War II, practically all milk sold in the area comes from within its borders. From 1934 to 1940 the area was administered under a Federal license. However, when the Federal Agency took into consideration that this was not a matter of interstate commerce, it ceased its control function. It is understood that it differs from other milk market areas of the State, as it is the only market wide pool area under State control except those in the states of New York, California and Oregon. The area was set up as a market wide pool because a substantial majority of the milk producers so petitioned the Milk Control Board.

The Milk Market Administrator representing the Milk Control Board acts as the Milk Marketing Agent representing the milk producers and he is also the manager of the New Bedford Milk Producers Association. This individual is not compensated by the Commonwealth or the Milk Market Administrator, but he is paid for his services as a Milk Marketing Agent from funds derived from the State administered pool. The State Milk Control Board holds a bond, paid for by producers protecting the producers whose funds are in his custody.

Milk Dealers located in this area are not audited by State Milk Control Board Inspectors, but an audit is made once a year by the Inspectors of the New Bedford Marketing Area office of the Federal Milk Market Administrator.



## UNIVERSITY OF MASSACHUSETTS AT AMHERST

REPORT No. 52-28

**Cash Over and Short:** On October 16, 1951, when this audit was initiated, a net cash shortage of \$147.07 was indicated. The records of daily cash variances for the current audit period were analyzed and showed that a great number of variances occurred during the student registration periods. It was further noted that variances occurred in every month within the period covered by this audit.

Because of his contemplated retirement, the University Treasurer requested that a cash audit be made of his accounts as of December 31, 1951, and as a result a net cash shortage of \$189.49 was noted. Since this treasurer was retired as of that date, it is recommended that the University initiate steps to clear the total cash shortage of \$189.49. It was further noted that these cash shortages do not appear on the financial reports of the University. It is therefore recommended that the financial reports of the University show the actual cash position so that the cash variances will then be properly represented.

**Boarding Hall Materials and Supplies:** A physical inventory of the materials and supplies in the Boarding Hall was taken on October 31, 1951, and resulted in shortages of \$732.84 and overages of \$399.54. The control account in the general ledger was analyzed and it was noted that additional adjustments made during the audit period totaled \$1,195.37 of which \$905.14 were shortages and \$290.23 were overages. These differences would appear to be excessive on the total issues during the audit period of \$149,889.06. It is suggested that steps be taken to curtail these differences.

**Boarding Hall Suspense Accounts:** The previous audit report commented on the fact that suspense accounts were being carried on stock ledgers of the Boarding Hall and recommended that these items be cleared as soon as orders are completely filled. It was noted however, that on October 31, 1951, there appeared on these stock ledgers suspense accounts totaling \$10,481.94 on orders which had been completed. Comparison with the records in the office of the University Treasurer indicated that \$6,198.95 of this amount had been canceled on the college records prior to that date. Attention is called to the fact that there was charged off during the current audit suspense accounts from the previous year in the amount of \$15,374.64. These large suspense account balances obviously indicate improper screening of purchase orders at the close of fiscal years. It is therefore recommended that the management of the Boarding Hall and the office of the University Treasurer proceed to set up a more efficient system with regard to purchase orders canceled, and the screening of purchase orders particularly at the close of the fiscal year.

**Annual Inventories - 1951 Fiscal Year:** The annual inventories of the University submitted to the Treasurer's office by its various departments were checked to the tabulation of these inventories of supplies and equipment set up by the property section. It was noted that discrepancies appeared between the tabulation by the property section and the physical inventories taken by the various departments. As the final tabulation of these inventories is used by the University Treasurer in his annual report, it is recommended that the Treasurer instruct the various departments to take and tabulate an actual physical inventory at the close of each fiscal year, and have the tabulation of these inventories carefully checked by the property section before publication.

**Internal Check and Controls:** The internal system of controls of the University were reviewed and as a result the following suggestions are made:

1. Persons engaged in handling of cash should not have access to the ledger accounts or the cash receipts and disbursements journals. Someone other than the cashier should prove the daily cash receipts. In this connection it was noted that the cashier in the office of the Treasurer now receives and records the cash receipts in the cash receipts journal and has access to the various subsidiary ledgers. The cashier at the close of each day's transactions proves his own cash.
2. Reconciliation of bank statements should be properly reconciled. In this connection it was noted that the adding machine tapes which contain the listing of checks cleared by the banks were not used for checking purposes.
3. Deposit slips should be prepared in duplicate and receipted by the bank, and the duplicate should be retained for reference purposes.

4. It is suggested that a review of the procedure of recording the receipt of goods by the University receiving room, and the processing of all invoices should be made. The present process of sending the invoices to the departments for approval causes much delay in the scheduling of invoices for payment.

5. It was also noted that personal packages to employees are being received at the University receiving room. This practice should be discontinued and other arrangements made for the receipt of personal deliveries.

**University Production:** Previous audit reports have constantly recommended that the Commission on Administration and Finance review the records of the University Farm accounts and the Productive Enterprises accounts, so that these accounts would be incorporated with the financial records of the University. It is understood that such a review was conducted by a member of the Field Staff and the Farm and Agricultural Coordinator of the Commission on Administration and Finance, and as a result it was finally decided that no change in the present routine was necessary.

**Sale of Milk by the University Dairy Department:** It was noted that charges were being made for the sale of milk to certain employees of the Dairy and Farm departments. It was understood that these employees are allowed to purchase milk from the Dairy at a cost of 14¢ per quart, and in this connection it was noted that the average weekly sales of milk totaled 170 quarts. Inasmuch as the farm does not produce a sufficient quantity of milk to supply the needs of the Boarding Halls, they are forced to purchase raw milk from outside sources. Attention is also called to the fact that the most recent bid for the purchase of this milk was 16¢ per quart. Because of the existence of this incongruous situation, it is recommended that the Commissioner on Administration and Finance issue instructions with regards to the sale of home produced products to employees and others.

**Charles S. Plumb Fund:** The bequest under which this fund was established states that one-half the annual income is to be awarded each year and the other half of the annual income is to become part of the original fund for the next fifty years after the plan goes into operation.

The records of the college show that no award has yet been made from this fund, and one-half of the income earned to June 30, 1951 was transferred to the principal account on June 30, 1951.

**Shortages Paid for by Employees:** On October 5, 1949, a shipment of beef was received at the Boarding Hall. Although this shipment called for 1171 pounds, only 973 pounds were found to be contained in the packages when they were weighed and checked by the storeroom personnel. The storeroom clerk did not sign for the weight of the shipment, signing only as to the number of packages received. After a great deal of correspondence between the Beef Company and the Boarding Hall manager, it was decided that the shortage would be paid for in the following manner: One third by the Boarding Hall; one third by the Express Company, and one third by the Beef Company. In this connection it was noted that three employees of the storeroom at Draper Hall paid \$10.78 each to the Manager of the Boarding Hall who in turn mailed his personal check for \$32.34 to the Beef Company. Inasmuch as a letter on file from the Commissioner and Purchasing Agent of the Commonwealth states in part: "You should pay for the amount of meat which you received, only", it is recommended that the Boarding Hall deduct the aforementioned \$32.34 from the next invoice presented by the Beef Company and reimburse the employees concerned for the amount paid by them.

## TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT No. 52-29

**Treasurer's Office - General:** For the past several years it has become increasingly obvious that because of conditions involving certain personalities in the treasurer's office the interests of the Commonwealth have suffered. In this respect there appears to be a great deal of hostility and a spirit of disunity among these employees, which of course affects the efficiency and proper management of this particular office. It is strongly urged that the trustees take this matter in hand and take those steps necessary to correct the prevalent disturbing conditions.

Attention is also called to the fact that certain functions of this office which are ordinarily of a fundamental nature and are simply performed have suffered. These include the following:



Returned checks are filed together with the bank statements instead of being filed in numerical sequence for easy access.

Filing system is poorly and inadequately maintained.

The office appears to be littered with old records of all kinds.

Cash book entries are not made chronologically but appear to be haphazardly entered.

**Certain Outstanding Checks:** The audit report of the previous year called attention to the fact that the outstanding State Account checks included eleven which were drawn to the former Postmaster at Tewksbury. These checks were issued during the years 1945 - 1947. In connection with this audit, the former Postmaster was visited and as the result three of the aforementioned checks were found by him. He also indicated that he would advise the institution that the remaining eight checks were lost and would request that new checks be substituted.

In connection with the foregoing it would seem that the institution personnel was extremely remiss in its duties in not closing this matter before this late date.

**General Ledger:** Attention is called to the fact that on the date of audit on October 17, 1951 the general ledger had only been posted through the month of August 1951. It was further noted that this ledger was not ruled off and closed at the end of the previous fiscal year. It is also suggested that this folio should be maintained more neatly.

**Treasurer's Office - Cash Accounts:** Attention is called to the fact that office cash is not balanced daily as is provided in the Comptroller's Accounting Manual. In this connection the following variances were noted in balancing the cash in the various funds on the date of audit.

	Balance Per Cash Book	Actual Cash	Difference
State Accounts	\$197,366 44	\$197,351 65	-\$14 79
Inmates	31,922 30	31,983 74	+ 61 44
Post Office Key	243 80	230 83	- 12 97
Locker Key	53 61	43 88	- 9 73
Bond Deposits	906 00	897 50	- 8 50
Escrow Retirement	937 32	927 32	- 10 00

It is very possible that if the cash were properly balanced each business day that the foregoing variances would not have existed.

It was also noted that the cash is not being deposited promptly. In this connection attention is called to the fact that when the cash was balanced at the inception of the audit on October 17, 1951, the cash included one check dated in February 1951 and 26 checks dated in September 1951.

**Accounts Receivable Ledger:** The accounts receivable ledger was in a very confused condition and it was impossible to determine from it any accurate details relating to outstanding accounts. In this connection it was necessary to analyze and check to the cash book all sales slips to determine the outstanding accounts. No trial balance of the unpaid accounts has been taken at the close of each month since early in 1951. After a great deal of effort it was found that although the total outstanding agreed with the monthly financial report, the detail could not be reconciled. The following shows these differences as of September 30, 1951:

	Control Account	Financial Report
Board	\$ 590 44	\$ 486 77
Maintenance Charges	-	11 13
Rents	11 13	(32 14)
Sales	408 25	546 06
	<u>\$1,009 82</u>	<u>\$1,011 82</u>
Adjustment to be made a/c credit shown but no charge		(2 00)
	<u>\$1,009 82</u>	<u>\$1,009 82</u>



It is suggested that individual accounts be maintained in the accounts receivable ledger for various transactions.

Attention is also called to the fact that the monthly financial report indicated a credit balance to rents of \$32.14. In an effort to trace the source of this balance the records were traced to 1945 without success. It is suggested that this item be identified and properly adjusted.

**Bond Deposit Fund:** Attention is called to the fact that the accounts of this fund have been handled in a very inefficient manner. As a result a great deal of time and effort was needlessly expended in efforts to audit this account. Many factors contributed to the situation noted, which included the following:

1. Pay roll deductions appeared in the wrong month
2. Records of bonds purchased were not entered in the respective individual account cards
3. The listing of bonds purchased on July 24, 1951 was not available in the check book

**Bonding of Employees:** The past few audit reports have commented on the fact that there were certain employees in this institution treasurer's office who handled cash in connection with their official duties yet they did not appear to be bonded. In this connection this institution was advised by the Business Agent of the Department of Public Welfare in a letter dated October 1, 1951, that the treasurer's bond covers all employees in his office.

**Farm:** In connection with the examination of the 1950 farm report it was noted that the milk production averaged 5,743.5 quarts per cow per year and was produced at a cost of \$.1192 per quart.

Egg production averaged 177.2 eggs per hen per year produced at a cost of \$.565 per dozen. In this connection attention is called to the fact that the credit for egg production is only 40¢ per dozen. It would seem that this price which was set by the Commission on Administration and Finance should have been revised in view of the actual production costs.

Attention is called to the fact that only those calves born prior to December 1, should be transferred to heifers at the end of the calendar year. In this connection it was noted that the census shows only three calves on hand as of December 31, yet the records indicate that nine were born during the month of December 1951.

Attention is also called to the fact that the annual farm report does not indicate any vegetable spoilage items. It was further noted that the shrinkage amounts appearing in the cabbage, carrots and winter squash accounts was considerably lower than amounts usually noted.

**Escrow Retirement Fund:** This fund includes 14 checks which have been outstanding more than a year and which aggregate \$138.97. Stop payment orders should be issued on them and the proceeds turned over to the State Treasurer as Unclaimed Wages in accordance with instructions in the Comptroller's Accounting Manual.

**Community Store:** This account includes 9 checks which have been outstanding for periods of one to six years and which total \$184.01. Payment should also be stopped on these checks and the proceeds added to the store's surplus.

It was also noted that excise tax payments are being charged erroneously to operating expenses.

It was further noted that monthly adjustments are occasionally entered in the cash book as a receipt. By doing this it causes this cash book column to agree with the cash register tapes.

It was also noted that the cash Over and Short account which was criticized in the previous audit report has been closed and its balance entered in the cash book as revenue.

Attention is called to the fact that the operating profit of the community store for the 10 months covered by this audit totaled only \$210.46. During this period benefits paid totaled \$2,627.29 thereby reducing the store's capital in the amount of \$2,416.83.

Patients' Fund: Several inmates with balances in their accounts were discharged from this institution without receiving the balance in their accounts. It was also noted that several bank accounts were opened for patients after the date of their respective discharges. This certainly indicates a lack of cooperation between the business office and the medical department, and it is suggested that immediate steps be taken to coordinate the activities of these two departments.

It was also noted that trial balances of the inmates fund accounts were not taken monthly. In this connection no trial balances were available as of the last days in February, March, April and September 1951.

Included with the patients' fund bankbooks are 27 in the Union National Bank of Lowell belonging to former patients who have been discharged for more than two years. In this connection Section 2E of Chapter 295 of the Acts of 1936, as amended states as follows:

"Any bank book representing a deposit account in a savings bank or trust company within the commonwealth, which belongs to a former patient of said institution and shall have remained unclaimed for more than two years in the custody of the superintendent thereof may be presented by the Trustees to such bank or trust company accompanied by their written request for payment to them of such deposit account except so much as is in excess of the amount due the commonwealth for the support of such patient, and such bank or trust company shall thereupon pay to the trustees the amount so requested."

In accordance with the foregoing statute a formal request was made on November 15, 1951 of the bank for disposition of these funds. In this connection the following letter was received from the bank's attorney:

COPY

Chalifoux Building  
Lowell, Massachusetts

November 17, 1951

Mr. ...., President  
Union National Bank of Lowell  
61 Merrimack Street  
Lowell, Massachusetts

Dear Mr. ....:

In regard to your request for an opinion concerning the matter referred to in the enclosed letter from Thomas J. Saunders, Superintendent of the Tewksbury State Hospital and Infirmary, dated November 15, 1951, I give you my opinion as follows:

SECTION 2E: Chapter 122 of the General Laws refers to a deposit account "in a savings bank or trust company within the Commonwealth." The Union National Bank of Lowell is neither a savings bank nor a trust company, but is a national banking association organized under the laws of the United States. It would therefore be my opinion that this section does not apply to national banks. I do not think that this is a mere technicality. The Commonwealth of Massachusetts might well have jurisdiction over a savings bank or trust company incorporated under its own laws, but not over a national banking association incorporated under the laws of the United States. Possibly you could find out from one of our Boston correspondents what its interpretations is of this statute. If the general practice of other national banks is to regard this section as binding upon them, then I should think that you ought to have from the Tewksbury State Hospital an order signed by all the trustees accompanied by the bank book and also accompanied by a certificate signed by all the trustees certifying that the account belongs to a former patient of the institution and that the account has remained unclaimed for more than two years in the custody of the superintendent of said institution.

Yours very truly,

By .....

In view of the foregoing it is suggested that the entire matter be referred to the Attorney General for adjudication.

Attention is also called to the fact that this fund includes 66 accounts belonging to patients



who have been discharged for a period in excess of seven years. It is suggested that these accounts be transferred to the State Treasurer in conformance with Chapter 295 of the Acts of 1936, as amended.

The outstanding checks in this fund include ten totaling \$162.24 which have been in this category more than one year. Payment should be stopped on these items and the amounts added to the respective patients' accounts.

Several years ago the trustees of this hospital stipulated that the funds of all inmates with balances in excess of \$50.00 should be deposited in individual savings bank accounts. This practice has caused an undue load on the institution treasurer's facilities because many trips have become necessary to the bank as the volume of transactions is quite heavy. Inasmuch as accounts with balances of \$50.00 earn no interest, it is suggested that individual accounts be opened only in instances where interest may be earned on them.

Attention is called to the fact that the cash book which is used for this fund has not been provided with sufficient columns so that necessary analysis could be made of the transactions. Because of this situation, a great deal of time was consumed in connection with this examination because this analysis was independently made. While the audit was in progress a new five column cash book was provided, which it is hoped will function in an adequate manner.

#### GRAFTON STATE HOSPITAL

REPORT No. 52-30

**Checking of Income from Rentals of Rooms:** The Quarters Register, the medium used as a means of checking the income from house and room rent, had not been completely set up as of the date of the current examination, hence this source of income could not be checked. As this Register will ultimately show the complete record for such quarters from October 1, 1949 as prescribed by the Comptroller's Bureau, it will be possible to check this income in subsequent audits. However, it would seem as if the Institution should have completed this record for use during the course of the current audit as four months have elapsed since the Comptroller notified all spending agencies to prepare and put this record into use. It was understood from the Institution Treasurer that a delay in receiving the prescribed forms was responsible for the tardiness in preparation of this record.

**Coal Adjustment:** A review of the adjustments made in the Materials and Supplies account for the audit period indicated an adjustment in an amount which appeared to be unnecessarily large. This adjustment was for an overage of 680.83 tons of coal with a value of \$7,371.41.

Correspondence on file in the steward's office relating to this adjustment was seen. In this connection the following letter was seen from the Second Assistant Commissioner:

#### COPY

The Commonwealth of Massachusetts  
Department of Mental Health

15 Ashburton Place, Boston 8

November 14, 1950

Dr. William C. Inman  
Superintendent  
Grafton State Hospital  
North Grafton, Massachusetts

Dear Doctor:

In connection with the adjustment of 680.83 tons of coal, we have looked over the site of your coal pile and realize you have a very large stock on hand. We are also pleased to note the correction is an overage. However, we feel that there is still room for improvement in the keeping of coal records at your power plant.

Very truly yours,

Joseph P. Gentile  
Second Asst. Commissioner



It will be noted from the foregoing that the institution appears to be complimented because the adjustment was occasioned by an "overage". In this connection, attention is called to the fact that an overage adjustment is equally if not more serious than a shortage adjustment. To condone an adjustment simply because it falls into the former category is not evidence of sound accounting judgment.

**1950 Farm Report:** In connection with checking the farm costs as stated in this report with the farm costs shown in the institution's financial report, certain variances were noted. These variances are essentially caused by the fact that the eight digit financial system set up by the Comptroller's Bureau has not yet been extended to include the comparable accounts in the farm accounting system. It is suggested that consideration be given to setting up comparable accounting designations within the farm accounting system.

**Patients' Fund - Cash Payments to Patients for Canteen Purchases:** Patients with funds available in their accounts in the institution treasurer's office are allowed to purchase articles on sale in the canteen once each week on a requisition basis. Certain patients are also permitted to make purchases with currency which had previously been withdrawn from their personal accounts in the institution treasurer's office. As this practice of allowing patients to handle cash or currency is not the usual procedure and because the practice has grown considerably during the past few years, a description of the procedure used follows:

A standard state receipt book is used by an attendant on the wards to prepare a request for his funds by the patient - one receipt being used for each patient. The original slip is torn out and signed by the patient. The slips are then taken by the attendant to the medical office for approval and are then given to a clerk in the institution treasurer's office who handles the patients' accounts. This clerk gives the cash to the attendant, retaining possession of the respective slips as receipts. The attendant then distributes the money to the various patients. This matter was discussed with the Superintendent of this institution who apparently inaugurated this policy. He stated that this practice is in line with his policy of getting as many patients as possible on a "parole basis". (Parole in this instance meaning more or less freedom of the institution grounds within certain limits). He further stated that the number of patients in this category has increased from seventy-five to four hundred and fifty in the period of three years since his incumbency.

## BOARD OF REGISTRATION OF HAIRDRESSERS

REPORT No. 52-31

**Inactive Applications for Licenses:** The previous audit report commented in this connection as follows:

"The examination of the applications for hairdressers' and operators' licenses indicated that certain fees had been paid for these licenses as far back as 1936 and that no action has been taken by the various applicants concerned with regard to taking the qualifying examinations for which these fees originally were paid. In order to avoid the possibility of retaining these applications in the files indefinitely, it is recommended that the Board of Hairdressers seek legislation requiring that action be taken by the applicants within a certain specified period, otherwise the fees paid would be forfeited."

On October 30, 1951 the balance in the "Inactive Applications" account totaled \$4,339.00. This balance will be eliminated in the near future in accordance with a provision of Chapter 509 of the Acts of 1951 which reads in part as follows:

"If the applicant does not appear for any one of three examinations, of which he is notified, the examination fee, as provided in section eighty-seven CC, shall be retained by the board, and thereafter such applicant shall register anew as provided in sections eighty-seven T to eighty-seven JJ, inclusive."

**Expenditures:** It was noted that during the 1950 and 1951 fiscal years the appropriation expenditures of this Board exceeded its income. Chapter 427 of the Acts of 1951 attempted to rectify this situation by increasing certain fees.

## BOARD OF REGISTRATION IN MEDICINE

REPORT No. 52-33

**Suspense Account:** The previous two audit reports have stated:

"As now installed, the suspense accounts for examinations and certified statements are merely reference accounts without control or proof. Only those entries are put in suspense which cannot be given an application number of acceptance. Items in suspense, such as those waiting examinations, are not considered suspense items. It is recommended that the Division of Registration and the Comptroller's Bureau study the feasibility of making the suspense account an actual controlling account."

Inasmuch as nothing has been done in this regard, attention is again called to it.

**Board Minutes:** It was again noted that applicants for certificates to practice medicine who qualify through endorsement and National Board certification are issued certificates by means of a vote of the Board of Medicine which is recorded in the minutes. However, there is no record in the minutes relative to the results of the examination and re-examinations held for regular qualifying applicants.

It is, therefore, recommended that the results of all examinations and re-examinations be also made a part of the board minutes.

**Application Numbers:** The previous two audit reports recommended that the Comptroller's Bureau review the methods now in effect so that each entry will be identified with a cash book entry number, this number also appearing on the application. As this has not been done, attention is again called to it.

**Deficit:** Attention is called to the fact that the appropriation expenditures of this board exceeded its income by \$2,614.85 for the fiscal year ended June 30, 1951.

#### DEPARTMENT OF AGRICULTURE

##### GENERAL DEPARTMENT

REPORT No. 52-36

**General:** The essential purpose of the Dairy Bonding Law is ostensibly to protect the financial interest of Massachusetts producers in the event of certain contingencies. These bonds and their processing is controlled by a section within this department and is known as the Dairy Bonding Section, which comes directly under the control of the Commissioner of Agriculture.

**Trust Deposits (Miscellaneous):** The Trust Deposit account in the general ledger consists of the following: Notes Secured by Savings Bankbooks, U. S. Treasury Bonds, Stocks, Real Estate Mortgages, Life Insurance Policies and Miscellaneous. This account is also charged with the excess of notes received over notes returned and credited with the excess of notes returned over notes received.

In the interests of better accounting, it is suggested that separate accounts be maintained for the control of each class of collateral. It is further suggested that each of these accounts be charged with the total notes received and credited with the total of notes returned.

**Poultry Surety Bonds:** It was noted that there were \$958,000.00 of surety bonds on hand for Poultry dealers. However, there was no account in the general ledger of the department reflecting this activity. It is again recommended that a proper account be set up for this purpose.

**Poultry Surety Bond Record:** At present there is no permanent record of the Poultry Surety Bonds.

It is suggested that a permanent record comparable with that in the Dairy Bonding Section be provided.

**Collateral to be Returned:** It was noted that the total collateral on hand for the accounts of inactive operators totaled \$4,014.95 on the date of audit and consisted of the following:

<u>Type of Collateral</u>	<u>Value</u>
16 Bankbooks	\$3,414 95
1 Certificate of Stock	600 00
<u>17</u>	<u>\$4,014 95</u>

This amount includes twelve accounts which were in this same category at the time of the previous audit in the aggregate amount of \$1,596.35. Certain of these have been



on hand since 1935.

Inasmuch as the department apparently has no direct equity in these items it is again suggested that all possible steps be taken to return this collateral. The parties concerned should also be notified of releases of assignments, etc.

Because of the long period of time often involved before collateral and notes of inactive accounts are returned, it is again suggested that a control account for these inactive accounts be carried in the general ledger of the department.

**Ledger Records in Bonding Section:** In the past, the Dairy Bonding Section was audited in connection with the Milk Control Board. In this connection the following comments appeared in the previous audit report of the Milk Control Board.

1. Balances were not brought forward from year to year where collateral of some sort was being held on inactive accounts. Some of these accounts were several years old and in some instances ruled off although the collateral was still held in control.

2. Some active accounts, where the notes, collateral, etc., remained the same, were not brought forward to the current year, and again ruled off as though closed.

3. Several entries had not been made to cover the notes or assignments of record due to the fact that adjustments were pending. It is felt that the amounts of record should have been entered and the adjustments made when the new notes, assignments, or collateral were received.

4. It is suggested that the Comptroller's Bureau review the present ledger records in the Bonding Section.

Inasmuch as these matters have not been changed, attention is again directed to them.

**Mosquito Control Funds Restricted Revenue:** Under authority of Chapter 252 of the General Laws (Tercentenary Edition) as amended, the Comptroller's Bureau annually estimates the amount of the so-called assessments against certain cities and towns. On June 30, 1950 there was an accumulated surplus of \$3,073.51 from this source as indicated by the records of the Comptroller's Bureau. As of June 30, 1951 the accumulated surplus in this fund totaled \$14,750.63.

It is recommended that necessary accounts be opened on the books of this department so that these surplus items may be properly recorded.

**Mosquito Control Receipts:** It was noted that the Maintenance Fund receipts and the Trust Fund receipts which are received by the department and deposited with the State Treasurer on a regular receipts voucher are not being recorded in the general cash book maintained by the department.

It is suggested that all money received be recorded in the State General Cash Book.

**Outstanding Checks:** It was noted that there were three checks drawn more than a year ago which are still outstanding in the commercial bank account which is being used for Mosquito Control Pay Roll.

It is recommended that the bank be notified to stop payment on these checks, and the proceeds be forwarded to the State Treasurer to be credited to the proper account.

**Milk Plant Operators' Licenses:** In reconciling potential income from Milk Plant Operators' Licenses issued with actual income, it was noted that there were a number of licenses pending for both the 1950 and 1951 license years.

Attention is called to the fact that even though these actual Plant Operators' Licenses for the 1950 year were still in the office of the Department of Agriculture the operators concerned were apparently still doing business throughout the year. It was also noted that these operators have been doing business during the 1951 year although the licenses concerned were still in the department.

It was explained by the Bonding Officials that these licenses have never been issued because the Milk Plant Operators had not completely fulfilled their necessary obligations before licenses may be issued to them under the law.

In several instances it was stated that these licenses were withheld pending investigations.

In this connection it is suggested that investigations of Milk Plant Operators be expedited. It is also suggested that these Milk Plant Operators who have not fulfilled their



legal statutory obligations be stopped from functioning in that capacity.

Included in this list of pending items is an out-of-state operator who is apparently not required to file a bond or have a license who, however, paid a \$5.00 fee on February 28, 1950. It is suggested that this fee be refunded to him.

**Poultry Dealers:** It was noted in one instance that no surety bond was on file for a licensed Poultry Dealer even though the records indicate that such a bond had been received.

**Poultry Licenses:** It was noted in several instances that Poultry Dealers who have applied for licenses and sent in the required fees have failed to furnish the necessary bonds which are required by statute. In these instances licenses were not issued.

**Bonded Employees:** It is again suggested that all employees who handle cash and sign checks be bonded.

**Refunds of Receipts:** It is suggested that refunds of receipts be cleared through the Accounts Receivable control account in accordance with instructions in the Comptroller's Accounting Manual.

**Fees Account of Duplicate Dairy Certificates:** These certificates are not prenumbered so that any reconciliation of income through inventories is impossible. It is therefore suggested that subsequent supplies of these certificates be prenumbered in advance by the printer.

**Fruit and Vegetable Inspections:** The Fruit and Vegetable Inspection Certificates are occasionally sent directly to the department's inspectors in the field by Federal officials and others are sent to the Department of Agriculture, therefore no possible control of income through serially numbered certificates could be established. It is suggested that this matter be reviewed so that the income from this source may be controlled.

**Draft and Check on Hand in Bonding Section:** On date of audit a draft in the amount of \$3,000.00 drawn by the Employers Liability Assurance Corp., Ltd., dated December 6, 1950 was still on hand in the office. This draft is being held pending the settlement of a claim against a certain Poultry Dealer who is in bankruptcy and is being held for his creditors.

Another check in the amount of \$50.00 dated on July 3, 1951 was also found in the office. This check which was payable to the Commissioner of Agriculture was drawn in favor of a Poultry producer from an attorney who gave his personal check as a bond for a licensed Poultry dealer who had not made good on a previous check. Apparently this attorney's check was to be returned to him upon satisfactory completion of the deal. While this audit was in progress a new check was received and deposited on October 31, 1951. It is understood that the original check will be returned when the entire matter is settled.

## DEPARTMENT OF PUBLIC SAFETY

REPORT No. 52-37

**Collection of Boiler and Air Tank Inspection Fees:** A previous audit report recommended that the system for collection of fees on Boiler and Air Tank inspections be revised. In this connection it was noted that a new procedure of handling these items was put into effect on July 1, 1950. It was noted, however, that because of greatly reduced revenues, etc., this new system which involved payments in advance of inspections was discontinued effective April 1, 1951.

From April 1 to the current audit date of November 21, 1951, the former system of collections, with certain modifications, has been in effect.

The recommendation made in December 1949 had as its major objective the reduction in outstanding bills with consequent reductions in charge-offs of uncollectible items. To maintain this objective the following are suggested:

1. Prompt completion of inspection reports and transmittal to the main office.
2. Prompt billing and mailing so there will be no long delay between the time an inspection is made and the bill is received by the owner.

### 3. Vigorous follow up on bills outstanding 60 days.

License Forms - Main Stockroom on Second Class Fireman's License Form F and E 20: An inventory of the above license forms indicates that numbers 4901-5000, which were on hand at the time of the previous audit, were not available in connection with the current audit. It is understood a further search will be made by the department storekeeper, so that possibly they will be available for examination in connection with the subsequent audit.

## COMMISSION ON ADMINISTRATION AND FINANCE

REPORT No. 52-38

GENERAL: Prior audit reports have commented at length on the increasing complexities of the accounting system of the Commonwealth, since in recent years, due only in part to statutory changes, the State accounting system has gradually shifted from a cash system to a modified accrual system with greatly increased costs. It is the opinion of this Department that these changes are superfluous, since the various State departments, institutions and agencies are limited in their expenditures to amounts appropriated by the General Court for their maintenance and, therefore, the accounting system should be essentially maintained on a cash basis.

The more cumbersome of these changes have resulted from adoption of an allotment and encumbrance system, supposedly as a means of more effective control over expenditures. A review of the record of these systems indicates no improvement in control and they have proved expensive to maintain and, at the same time, have needlessly complicated the bookkeeping of every agency of the Commonwealth.

Allotment System: Section 9B of Chapter 29 of the General Laws provided for the installation of the allotment system, which ostensibly was intended to prevent overdrafts but in reality represented a transfer of legislative authority to the executive branch of the State Government. While this statute has never been tested, considerable doubt exists as to its constitutionality.

Despite the substantial costs of maintaining the allotment system, deficiencies continue and prior audit reports have shown that they have actually increased. In the interests of economy and simplification, the Commission should advocate repeal of this section.

Encumbrance System: Section 29 of Chapter 29 of the General Laws requires that the Comptroller:

"...shall refuse to permit a disbursement or the incurring of an obligation if funds ...sufficient to cover such disbursement or obligation ....are not available."

As a direct result of this statute, it became necessary for the Comptroller to apply the encumbrance system to all state accounts maintained by his Department.

Basic financial responsibility for incurring an obligation in excess of an appropriation should rest with the head of the individual agency concerned since the Comptroller, operating without encumbrances, can still stop any expenditures in excess of amounts appropriated and this should be his primary duty.

In this connection, the previous audit report stated:

"Maintenance of the encumbrance system has added expensive red tape to operations of the financial controls of the Commonwealth and has not provided any additional control. In addition, it has placed responsibilities upon the Comptroller that belong with the head of each spending agency."

The mandatory provisions of Section 29 of Chapter 29 of the General Laws which relate to this subject should be removed, and this would permit the Comptroller to use discretionary judgment as to the methods that he shall use to control appropriations.

ANNUAL REPORT: Attention is directed to the provisions of Section 33 of Chapter 7 of the General Laws which states as follows:

"The commission shall, annually on or before the second Wednesday in January, submit to the general court a printed abstract of its annual report, exhibiting a full and accurate statement of the financial condition and transactions of the commonwealth for the preceding fiscal year; ....."



This statute plainly calls for a "full and accurate statement of the financial condition . . . of the commonwealth".

Attention is also directed to the provisions of Section 34 of the same chapter, which states as follows:

"Such report shall contain a summary statement of the receipts into, and payments from, the treasury of the commonwealth for the preceding fiscal year; a detailed statement of such receipts and expenditures, including obligations, whether paid or unpaid, . . . ."

This section plainly requires that the annual report of the Commission shall include obligations of the Commonwealth, "whether paid or unpaid" as of the date of the report and, therefore, the Commission is required to report the financial condition of the Commonwealth and include in that report a statement of all unpaid obligations.

Attention is directed to the fact that the annual reports issued by the Commission as Public Document 140, and the abstract issued as House No. 500 do not comply with the provisions of the law, since unpaid obligations of the Commonwealth, which on June 30, 1951 amounted to more than \$29,000,000.00, have not been reported in either of these reports of the Commission; and, as a result, the "financial condition" of the General Fund the Old Age Assistance Fund and the Veterans' Fund has not been accurately reported.

In every instance, the obligations not reported by the Commission are reimbursements due the cities and towns of the Commonwealth, and represent funds actually expended locally for which the cities and towns are awaiting reimbursement.

The major items are listed herewith:

<u>Department Administering Appropriation</u>	<u>Period Reimbursable</u>	<u>Item</u>	<u>Fund</u>	<u>Amount Outstanding June 30, 1951</u>
1. Public Welfare	July 1950 to June 1951	Aid to Dependent Children	General	\$ 4,970,497 21
2. Public Health	1950 Calendar Year	Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals	General	454,611 95
3. Education	1950-51 School Year	School Superintend- ents in Small Towns	General	172,268 92
4. Education	1950-51 School Year	Transportation of Pupils	General	1,937,611 97
5. Education	1949-50 School Year	Vocational Education	General	3,276,934 71
	1950-51 School Year			3,044,335 83*
6. Education	1950-51 School Year	Reimbursement to Cities and Towns for Adult English Speaking Classes	General	92,119 66*
7. Public Welfare	December 1950 to June 1951	Grants in Aid	Old Age Assist- ance	14,125,648 31**
8. Veterans' Services	November 1950 to June 1951	Reimbursements to Cities and Towns on Account of Veterans' Benefits	Veterans' Services	1,870,067 72

\* These amounts partly estimated, since the Department of Education had not completed its audit of invoices for 1950-51 school year.

\*\* Chapter 490, Acts of 1951, permits payments for prior years to be made from the 1952 appropriation for this item.



1. Aid to Dependent Children: Section 6 of Chapter 118 of the General Laws provides for partial reimbursement of cities and towns by the Commonwealth for aid to dependent children. In the Department of Public Welfare, as of June 30, 1951, there were unpaid invoices awaiting State reimbursement which had been audited by that department aggregating \$4,970,497.21, representing payments made by the cities and towns for dependent children in the period between July 1950 and June 1951.

These obligations were not shown in either report of the Commission on Administration.

2. Subsidies to Cities and Towns for Tubercular Patients in Certain Hospitals: Before March 1, 1951, the Division of Tuberculosis and Sanatoria in the Department of Public Health received, from the cities and towns, bills for the year ended December 31, 1950, representing reimbursements due the cities and towns for subsidies paid by them for tubercular patients. After verification by the Division, these bills amounting to \$454,611.95 were sent on May 3, 1951 to the fiscal office for final verification and payment.

This amount was unpaid as of June 30, 1951 and was not recorded by the Commission as a liability. It is interesting to note that the actual 1951 appropriation was expended to reimburse cities and towns for expenditures actually made during the 1949 calendar year.

3. School Superintendents in Small Towns: Section 65 of Chapter 71 of the General Laws provides certain partial reimbursements to towns for salaries paid to Superintendents of Schools. The amount due towns for the school year ended June 30, 1951 was \$172,268.92. This amount was unpaid on June 30, 1951 and was not recorded as a liability in either report of the Commission.

4. Transportation of Pupils: Section 7A of Chapter 71 of the General Laws provides for partial reimbursement to cities and towns for expenditures incurred for transportation of pupils. The amount of this liability for the school year ended June 30, 1951 was \$1,937,611.97. This amount was unpaid on June 30, 1951 and was not recorded as a liability in either report of the Commission.

5. Vocational Education: Chapter 74 of the General Laws provides for partial reimbursement to cities and towns by the Commonwealth for expenditures in connection with Vocational Education. The amount of these liabilities for the school year ended August 31, 1950 was \$3,276,934.71, and apparently will be paid by the Commonwealth from the 1952 appropriation. An additional appropriation of \$3,653,203.00 has been requested by the Department of Education in the 1953 budget and apparently will be used for payment of invoices covering the school year ended August 31, 1951. Since the Department of Education had not completed its audit of invoices for the 1951 school year, the full and exact liability as of June 30, 1951 could not be determined, however, it can be estimated as follows:

Liability for 1949-50 school year	\$3,276,934 71
Estimated liability for 1950-51 school year ended August 31, 1951	<u>3,044,335 83</u>
Total estimated liability June 30, 1951	<u>\$6,321,270 54</u>

These items, though unpaid as of June 30, 1951, were not reported as a liability by the Commission in either of its reports as of June 30, 1951.

6. Reimbursement to Cities and Towns for Adult English-Speaking Classes: Section 10 of Chapter 69 of the General Laws provides for the partial reimbursement of towns providing such instructions. The amount of these liabilities for the school year ended August 31, 1951 was determined as follows:

Audited invoices for school year ended August 31, 1951	\$74,119 66
Estimated balance of invoices to be audited applicable to school year ended August 31, 1951	<u>18,000 00</u>
Total	<u>\$92,119 66</u>

It is again noted that neither report of the Commission reflects this liability.

7. Grants in Aid: Section 8 of Chapter 118A of the General Laws provides for the partial reimbursement of cities and towns rendering assistance to certain aged persons. The Department of Public Welfare has determined from bills received and audited that the amount of \$14,125,648.31 represents the amount reimbursable to the cities and towns for payments made by them during the period December 1950 to June 30, 1951.

On June 30, 1951, this amount was owed by the Commonwealth to the various cities and towns, and yet was not recorded by the Commission as a liability.

8. Reimbursement to Cities and Towns on account of Veterans' Benefits: Section 6 of Chapter 115 of the General Laws provides for partial reimbursement to cities and towns for amounts paid as veterans' benefits. The cities and towns monthly certify to the Commissioner of Veterans' Services amounts paid by them for this purpose, and these certificates are then audited by the office of the Commissioner, and invoice warrants are prepared and sent to the Comptroller's Bureau to be processed for payment. On June 30, 1951, the amount of the Commonwealth's liability for this purpose amounted to \$1,870,067.72 and represented reimbursements to be made to the cities and towns for expenditures by them during the period from November 1950 to June 1951, inclusive. This item is not reflected as a liability on the report of the Commission as of June 30, 1951.

HIGHWAY FUND: In direct contrast to the manner in which the Commission has reported the status of the funds already mentioned, the Commission has understated the financial condition of the Highway Fund.

Examination of the Commission's annual report (House No. 500) for the fiscal year ended June 30, 1951 will disclose that Federal Funds previously allocated to the Commonwealth totaling \$22,393,109.22 were omitted from statement XI "Highway Fund - Comparative Statement of Surplus for 1951 and 1950". This statement, therefore, shows a deficit of \$20,200,045.67 at the close of the 1951 fiscal year.

One of the items that did appear in the Commission's report under "Deductions from Surplus" for the 1951 fiscal year was labeled "Decrease in Estimated Share Due from Federal Government" in a total of \$6,100,639.42. This is an entirely misleading description of this item and actually represented a bookkeeping entry made by the Commission for the purpose of closing out an incorrect balance of the Federal Aid Fund account carried on their books since July 1, 1950. This balance was proved to be incorrect by a special audit of Federal Aid Funds in the Department of Public Works, covering the period between July 1, 1944 and June 30, 1950, and the correct balance was known to the Commission and for some unexplained reasons the Commission, rather than use the correct figures, has entirely eliminated this balance from its report.

An analysis of the Federal Aid Funds available to the Department of Public Works showed that the following balance was available on June 30, 1951:

Federal Aid Funds Available, July 1, 1950	\$33,465,129 53
Add:	
1952 Fiscal Year Apportionments	8,929,247 00
	\$42,394,376 53
Deduct:	
Reimbursements for 1951 Fiscal Year	20,001,267 31
Federal Aid Funds Available, June 30, 1951	<u>\$22,393,109 22</u>

#### Summary

Current:		
Accounts Receivable		\$ 164,437 11
Deferred:		
Contract Stage	\$11,217,287 59	
Plans, Specifications	2,788,449 99	
Program Stage	6,197,078 86	
Unprogrammed	2,025,855 67	22,228,672 11
		<u>\$22,393,109 22</u>

The deficit in this fund reported by the Commission results entirely from inclusion of Accrued Liabilities labeled "Reserve for Balances Forwarded" in the abstract, page 22, amounting to \$44,310,455.84. Since the Federal Funds allocated to this State can be



properly described as Accounts Receivable, the Commission appears to be inconsistent in excluding this item amounting to \$22,393,109.22 from its financial statement, and, at the same time, including Accrued Liabilities of \$44,310,455.84.

**DEFICIENCIES:** Included in the deficiency folder maintained by the Comptroller's Bureau was an invoice warrant of \$92,656.51, representing amounts apparently due various cities and towns of the Commonwealth.

In seeming compliance with Section 16 of Chapter 58 of the General Laws, the Commissioner of Corporations and Taxation submitted to the State Treasurer a greatly enlarged annual statement as to the value of land owned by the Commonwealth on January 1, 1950 for the purposes named in Section 13 of Chapter 58 of the General Laws, which provides for payments to cities and towns in lieu of taxes for certain public institutions. This statement included the amount to be paid to each of such cities and towns at the rate of reimbursement determined by Section 17 of Chapter 58 of the General Laws.

This enlarged statement of the Commissioner of Corporations and Taxation was obviously based on a more liberal interpretation of what constituted a public institution within the meaning of Section 13 of Chapter 58, and this amplification by the Commissioner seems to have been based on his interpretation of a recent court decision, since for the first time he had included armories and State Teachers Colleges as public institutions under this section.

The Commissioner must have known at the time he submitted his invoice that under the terms of the existing appropriation act the Comptroller could not pay most of the added items he had included, since the appropriation from which these payments are made has for the past two years specifically excluded any payments on land or institutions which were not included in such distribution prior to January 1, 1950.

The Comptroller, therefore, returned the original invoice and asked that it be corrected to meet the provisions of the appropriating act. The Commissioner of Corporations and Taxation then submitted an amended invoice warrant omitting State armories, State Teachers Colleges, and a few parcels of land acquired by the Department of Conservation from the Metropolitan District Commission for recreational purposes, subsequent to January 1, 1949, but he also submitted a second invoice warrant for those items which could not be paid, amounting to \$92,656.51, and as of June 30, 1951, the invoice was still in the hands of the Comptroller's Bureau and had not been paid.

The individual amounts in this invoice were included in the cherry sheets issued to the various cities and towns involved by the Commissioner of Corporations and Taxation even though he was obviously aware that the Comptroller is prohibited by the appropriating act from making such reimbursements.

It is not conducive to intelligent municipal operations to have cities and towns of the Commonwealth continuously misled by overstatement or understatement of receipts due from the Commonwealth -- by the Commissioner of Corporations and Taxation. It would seem that the Commissioner should have sought either clarification of the phrase "public institution" as contained in Section 13 of Chapter 58 or legislative approval of his own interpretation before he promised such sums to the various municipalities.

**ANNUAL REPORT - VALUATION OF SECURITIES AT MARKET VALUE:** Section 35 of Chapter 7 of the General Laws requires that the annual report of the Commission shall include the following information:

".....In making such report the commission shall estimate the value of securities at their market value at the time of making its report ..."

It was noted that neither House No. 500 nor the Comptroller's annual report for the fiscal year ended June 30, 1951 contained this required information. A member of the Comptroller's Bureau indicated that such information was omitted because it would be expensive and impractical to determine the market value of the securities. The statute, however, is specific and mandatory, and should such information be expensive or impractical to obtain, the Commission has no alternative other than to provide it or to seek revision of the statute.

**PUBLIC DOCUMENT NO. 90 - NOT COMPILED SINCE 1941 BY THE DIVISION OF PERSONNEL AND STANDARDIZATION:** The provisions of the General Laws, Chapter 7, Section 30, require that the Division of Personnel and Standardization shall --

".....on or before April fifteenth in each even numbered year, publish a document containing such information concerning said officials and employees



in the employ of the commonwealth on the preceding November thirtieth as, in its opinion, may be of public interest. Said document shall contain such summary and comparative tables as will best show the numbers of officials and employees in the service of the commonwealth during the two years preceding said November thirtieth, and during a further period of two years prior thereto, to be arranged in such manner as will make them of the greatest practical utility .....

The records of the Public Document Division indicate that the last publication of Public Document No. 90 compiled by the Division of Personnel and Standardization was for the three-year period ended November 30, 1941.

Publication of this information is mandatory and should be resumed unless the statute is amended by the General Court.

**RULES AND REGULATIONS FOR DISPOSITION OF GRIEVANCES:** Section 53 of Chapter 30 of the General Laws states in part as follows:

"The commission on administration and finance shall, subject to the approval of the governor and council, make rules and regulations providing informal procedure for the prompt disposition of any grievance of any employee of the commonwealth, ....."

On the date of audit there were no records in the office of the Secretary of the Commonwealth to indicate that the Commission on Administration and Finance had ever filed an attested copy of the rules and regulations required under this statute.

The Commissioner of Administration, in explanation, stated in part in a letter to this Department dated February 4, 1952:

"The principal reason for our failure to file rules and regulations covering its procedure was because of its extremely limited use for several years following its institution. In view of the informality of the Board in its very limited number of cases which have been heard before it, it was felt that the operation of the Board under rules drawn up by this Commission might be handicapped in its handling of the very rare instances of appeals made to it by aggrieved employees."

The foregoing explanation, in our opinion, does not relieve the Commission on Administration and Finance of its responsibility to comply with Chapter 30, Section 53, of the General Laws.

It is recommended that the Commission either comply with the statute or initiate legislation to amend it.

**MINUTES OF THE COMMISSION'S MEETINGS:** An examination of the minutes of the Commission's meetings was made. It was noted that they are of an informal nature and are not signed by the Chairman, nor is there a secretary of the Commission.

#### STATE RACING COMMISSION

REPORT No. 52-39

**Unclaimed Pari-Mutuel Tickets:** At the date of audit, the value of unpaid pari-mutuel tickets for the 1950 racing season was \$54,313.70. This amount, subject to change because of tickets being redeemed at a later date will be payable to the Commonwealth early in 1952. Checks totaling \$63,920.00 were received from the various associations early in 1951 covering the unpaid pari-mutuel tickets for the racing year 1949.

It is understood that these unpaid tickets are under continuous audit by the commission's accountant until they are finally turned over to the Commonwealth in accordance with statute.

**Agricultural Purposes Fund:** This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$91,799.83 which was received as the result of fairs held in the 1951 year has been credited to this fund.

## WORCESTER STATE HOSPITAL

REPORT No. 52-40

Medical Facilities Available to Community: In this connection the previous report stated:

"Previous audit reports have included the following comment:

"Item 1 of Regulation No. 16 of Department of Mental Health States:

'The special medical facilities of the institution may in unusual circumstances be made available to persons in the community upon the request of a physician, at the direction of the Superintendent. The charge for this service shall in no instance be less than the cost thereof and shall be credited to income.'

"An Electroencephalograph machine located at this institution is used for brain wave tests, so-called E. E. G. Tests.

"These tests are given by a part-time employee of the Commonwealth and a technician who is not an employee of the Commonwealth.

"It was ascertained that the amount of \$1,674.00 was collected for the E. E. G. Tests given at this institution to other than hospital patients and this entire amount was given directly to the private organization which employs a technician assisting in giving these tests.

"The entire proceeds from this activity represents income due the Commonwealth and must be reported as such and forwarded to the State Treasurer. If the services of this technician are necessary and desirable he should be employed, through regular channels, as a part-time or full-time employee of the Commonwealth and paid through proper and authorized State pay rolls."

In connection with the foregoing comment it was noted that no income from this source had been turned over to the State Treasurer to date.

It was further noted that notwithstanding the fact that the Superintendent of this hospital indicated during the course of the previous audit: "that he had ordered the practice of giving E. E. G. Tests to persons other than hospital patients be discontinued," this practice still exists.

The following schedule shows the amounts collected during the past three audit periods for E. E. G. Tests which have not been recorded as income on the institution's records:

<u>Audit Period</u>	<u>Amount</u>
April 28, 1947 to May 4, 1948	\$1,674 00
May 4, 1948 to January 10, 1949	1,365 00
January 10, 1949 to February 6, 1950	755 00
	<u>\$3,794 00</u>

These amounts were determined from information submitted by the director of a private medical organization who stated that the information was taken from the records of that organization.

The foregoing matter was discussed with the hospital superintendent who indicated that the foregoing practice has been completely eliminated.

State Owned Laboratory Supplies and Equipment Issued to Laboratory Then Turned Over to a Private Organization: In this connection the previous audit report stated:



"During the course of this examination it was learned that certain laboratory supplies and equipment, which were purchased from the institution's maintenance and Dementia Praecox Research appropriations and which had been issued from the institution's pharmacy or storeroom to the institution's laboratory, had been turned over to a private organization.

"There is a memorandum record kept at the institution's laboratory of the supplies and equipment issued to that private organization. There is also on file an invoice from a laboratory supply firm in the amount of \$102.63 for supplies which, according to that invoice were purchased from Dementia Praecox Research appropriations. There are notations on these invoices which indicate that at least some of these supplies went to that private organization.

"This private organization is the one which is referred to as having received \$3,794.00 which was collected for E. E. G. Tests.

"In discussing this matter with the institution's superintendent, he stated that he had received verbal permission from the Commissioner of Mental Health to furnish this private organization with these supplies and equipment.

"The propriety of turning over State purchased equipment and supplies to a private organization is seriously questioned.

"In further connection with the foregoing comments, it was also understood from the hospital superintendent that this practice was discontinued during the current audit period. However, it was noted that the Commonwealth has never been reimbursed for the value of the items."

The foregoing matter was also discussed with the superintendent of this institution who indicated that there have been no developments in connection with this matter during the current audit period. It is therefore again suggested that steps be taken to obtain reimbursements of the amounts shown.

#### DANVERS STATE HOSPITAL

REPORT No. 52-41

Farm Accounts: Attention is called to the fact that the farm accounts indicate that the farm activities were operated at substantial losses for the past two calendar years. In this connection the following project losses were noted:

	<u>1949</u>	<u>1950</u>
Hay Fields	\$ 9,741 00	\$11,095 00
Gardens	10,579 00	5,957 00
Orchards	2,145 00	1,356 00
Dairy	1,931 00*	9,961 00
Swine	(3,102 00)	2,107 00
	<u>\$21,294 00</u>	<u>\$30,476 00</u>

\* No charge has been made for \$4,701.20 Ensilage Grains, and \$2,383.30 Home Produced Hay. This loss actually should have been \$9,015.00.

On analysis, the following were found to have in the main occasioned the foregoing losses:

Gardens:	Fertilizers, labor, board, tractor, tools and equipment show decreased costs of \$6,800.00 while production fell off \$1,300.00.
Orchards:	Production costs fell off \$1,200.00 while production decreased \$436.00.
Dairy:	Production costs increased \$5,200.00 while production also increased only \$4,300.00.

Swine: Production costs increased \$7,300.00 while production only increased \$2,114.00.

Poultry: The 1949 loss was \$4,400.00 while the 1950 loss was only \$57.00. Due to killing off the hens, the production costs decreased \$5,710.00 while production fell off \$1,367.00. Poultry raising is discontinued, at least, temporarily.

It was also noted that milk production averaged 6,126.9 quarts per cow per year at a computed cost of \$.1327 per quart, and egg production averaged 189.2 eggs per hen per year at a computed cost of \$.403 per dozen.

Maintenance Charges: The potential income from this source was computed at \$41,352.20 for the period covered by this audit. When vacancies and free rents for affiliated nurses was taken into consideration and the net potential income was compared with the cash book collections from this source, a variance of \$416.88 was noted. As this was probably caused by incorrect entries with respect to dates of occupancy and credits for free rents, it is suggested that greater care should be exercised with respect to these entries in the future.

It is of interest to note that the maintenance charges have decreased nearly 50% since 1950 as is indicated by the following:

	<u>Total Charges</u>	<u>Monthly Average</u>
1949	\$111,576 44	\$9,298 03
1950	86,518 10	7,209 92
1951	54,101 16	4,508 43
1952 (5 months)	20,755 66	4,151 13

It was also noted that meal tickets sold approximate only 50% of those sold in the first few months of 1950. It is understood that this has been caused essentially by dissatisfaction with the so-called "Standard Menu" as set up by the Department of Mental Health.

Patients' Accounts: It was noted that receipts on account of patients' board, which should be entered on C. B. Form #23, are being incorrectly entered on another form. The proper form should be used henceforth.

It was further noted that on occasion, cash received for patients on the "female" wards is not being promptly turned in to the office of the institution treasurer. It is essential that these funds be remitted to the business office no later than the succeeding business day after their receipt.

Attention is also called to the fact that certain patients are permitted to retain on their persons, certain sums of money. These funds are requisitioned from the business office on regular forms.

Canteen: It was noted that Christmas Cards, presents, etc., are on sale in the recreation room by the Danvers State Hospital Auxiliary. The profits are apparently being used for the benefit of those patients who appear to have no interested relatives or friends. There is also a canteen fund, the profits of which benefit the patients in general and not any particular individual cases. It is possible that the existence of this fund from income derived by these recreation room sales has been approved by the Department of Mental Health, but no evidence of this approval was available at the institution.

At present the canteen fund at this institution is given the commissions from certain vending machines which are located at various places throughout the institution.

#### BOARD OF REGISTRATION IN NURSING

REPORT No. 52-42

Re-examination Privileges: Under the existing statutes applicants for certificates as Registered Nurses and Licensed Attendants who have failed their examinations may take another examination within one year gratuitously. It is suggested that legislation be sought relative to the elimination of this gratuitous second examination and that fees be charged thereafter for all examinations.



## YOUTH SERVICE BOARD

## GENERAL DEPARTMENT

REPORT No. 52-43

Detention Home: A building located at 105 South Huntington Avenue, Boston, Massachusetts, and formerly occupied by the Boston Bouve School of Physical Education, was purchased by the Youth Service Board for \$120,000.00 as of June 8, 1950.

It was originally estimated according to a letter from the architect, dated May 31, 1950, that the cost of renovating this building would be \$50,643.00. Bids for this renovation were advertised on September 21, 1950 and were opened on October 11, 1950, and a contract was awarded to the lowest bidder for \$67,318.00, of which \$29,798.00 was for the general contractor and \$37,520.00 was for the sub-contractors.

The project was finally completed and accepted by the Youth Service Board on June 15, 1951 as per a letter dated July 23, 1951 to the Massachusetts Public Building Commission. In this connection attention is called to the fact that no mention was made of the acceptance of this home in any of the minutes of the Youth Service Board Meetings.

Certain changes and adjustments in the contract were made during its progress finally reducing the actual cost to \$67,117.17.

The following summarizes the total cost of this Detention Home including all items expended:

Purchase of Building		\$120,000 00
Renovation:		
Constructional Costs	\$67,117 17	
Engineering Costs	6,711 72	
Clerk of Works Costs	1,447 58	
Cost of Plans	83 09	
Other Costs	159 00	
Labor by Employees	790 65	76,309 21
Equipment		14,764 84
Total Cost		<u>\$211,074 05</u>

Reimbursement by the City of Boston: Section 2 of Chapter 459 of the Acts of 1951, as amended states as follows in this connection:

"Said chapter 542 is hereby further amended by striking out section 2, as amended by section 2 of said chapter 549, and inserting in place thereof the following: --

Section 2. For establishing and maintaining a place or places of custody under this act, the board may expend such sums as may be appropriated therefor. Not later than October first in each of the years nineteen hundred and fifty-one and nineteen hundred and fifty-two, the board shall certify to the state treasurer the total amount expended by it under this act during the preceding fiscal year. One half of such amount shall be assessed on the city of Boston as provided by section twenty of chapter fifty-nine of the General Laws."

In compliance with this statute, the Youth Service Board transmitted to the State Treasurer the following letter on October 1, 1951:

C O P Y

The Commonwealth of Massachusetts  
YOUTH SERVICE BOARD  
 14 Somerset St.

Boston 8, Mass.  
 October 1, 1951

Mr. John E. Hurley  
 Treasurer and Receiver General  
 State House, Boston

My dear Mr. Hurley:

We hereby certify under the provisions of Chapter 549 of the Acts of 1950 that the following amount was expended to establish and maintain the Detention Center at 105 So. Huntington Avenue, Boston, for the year ending June 30, 1951:

Code	0452-00-	Total	\$69,915 53
		Liabilities	13,679 27
		Cash Value	56,236 26

Very truly yours,

f:s

/s/ William A. MacCormick  
Chairman

On October 4, 1951, the Youth Service Board also mailed the following letter to the State Treasurer and Receiver General.

### C O P Y

The Commonwealth of Massachusetts  
YOUTH SERVICE BOARD  
14 Somerset St.

Boston 8, Mass.

October 4, 1951

Mr. John E. Hurley  
Treasurer and Receiver General  
State House, Boston

My dear Mr. Hurley:

The following amounts were expended on the purchase and renovation of the Detention Center, 105 S. Huntington Avenue, Boston:

1950	Acct. No. 7804-03	\$120,000 00
1951	" "	47,481 51

Very truly yours,

/s/ William A. MacCormick  
Chairman

wvf:lcs

In connection with the foregoing, attention is directed to the fact that the State Treasurer was to have been advised in this matter -- "not later than October first."

In further connection with this matter it was noted that the State Treasurer assessed against the City of Boston the amount of \$34,957.77 which represents only 50% of the maintenance costs for the fiscal year ended June 30, 1951. Inasmuch as the statute appears to direct that the City also be charged for establishing this Detention Home, it is suggested that steps be taken to effect the collection of one half of these costs or \$118,698.52.

Comparison of Expenditures - Fiscal Years 1949, 1950 and 1951: Attention is directed to the fact that over the past three years the maintenance costs of this Board have increased as follows:

Fiscal Year 1949	\$257,416 01
Fiscal Year 1950	450,976 86
Fiscal Year 1951	459,962 09



In this connection it was noted that the charges to the Laboratory, Medical, General Care section of the appropriation for the fiscal year 1951 totaled \$132,162.00. Of this amount \$124,904.63 represented charges on account of boys and girls boarded out. Permanent homes are paid \$13.00 to \$15.00 per week and temporary homes are paid \$3.95 to \$4.20 per day for boys and up to \$6.55 per day for girls.

There were 89 boys and 64 girls boarded in private homes as of December 31, 1951 and there were 1663 children in the custody and care of the Board as of December 31, 1951, including 1279 boys and 384 girls.

**Material and Supplies:** The Detention Home at 105 South Huntington Avenue, Boston, Massachusetts was visited on the date of audit for the purpose of taking a physical inventory of materials and supplies on hand.

In this connection it was noted that food purchases are charged directly to "expense" and therefore no food items are being carried as part of the inventory on the stock ledgers, hence no physical inventory was taken of these items.

A physical inventory of the items actually recorded on the stock ledgers was taken on that date and was compared with the stock ledger balances. As a result many variances were noted which it is believed came about because proper and necessary controls were lacking.

The present system provides that when a boy comes into custody his own clothing is removed and stored. A complete issue of new clothing from stock is given to him for wearing while at the Detention Home. When the boy has to appear in court, the clothes which were originally issued are taken from him and his own clothes are returned. The issued clothes are subsequently laundered and returned to the inventory. When these clothes have exhausted their usefulness they are disposed of and no record or entry is made. Therefore the only items which are actually charged from the stock ledger are those which are actually given to the boys. Because of these existing conditions, in order to take the physical inventory, it was necessary to count the items in the various store-rooms, count those items of clothing worn by the boys in the Home and also count those items on the laundry lists. In this connection, attention is called to the fact that the Home has its own laundry room and also uses a commercial laundry.

In view of the foregoing it is suggested that a representative of the Comptroller's Bureau visit the Detention Home, and after reviewing the present system, make necessary adjustments.

**Executive Secretary:** The Executive Secretary retired on October 19, 1951 and since that date the assistant to the Executive Secretary has been acting in that capacity;

**Bonded Employees:** It is suggested that all employees who sign checks and handle cash be bonded.

**Service of the Youth Service Board:** Attention is called to Section 2 of Chapter 756 of the Acts of 1951 which provides as follows:

"The construction of a reception detention building on property now owned by the Commonwealth in the City of Boston, including the cost of furnishings and equipment. -- \$575,000.00"

It is understood that the purpose of this Act is for the building of an addition to the present Detention Center for Boys which will include a Detention Home for Girls and a Reception Center for Boys and Girls.

**Unpaid Wages - Female Wards:** Wards of the Girls' Branch are sometimes placed in private homes as domestics after an agreement is entered into with the employer providing for the rate to be paid, etc. The cost of clothing, etc., is deducted from the total wages due. Generally spending money is also given directly to the ward. The balance, after these deductions, is remitted to the Girls' Branch for deposit in a bank account which is maintained for each ward. On December 26, 1951 according to departmental records there was due to the girls for net wages earned a total of \$701.60. This money has been outstanding for the following periods:

Less than 1 month	\$ 24 29
Over 1 month	91 42
Over 2 months	108 29
Over 3 months	65 71

Over 4 months	\$ 18 86
Over 1 year	268 45
Over 2 years	16 20
Over 3 years	56 47
Over 7 years	41 62
Over 10 years	10 29
Total	<u>\$701 60</u>

The fundamental responsibility for the handling of these wards' accounts rests with this Board and it is obvious that sufficient efforts have not been made to see that these accounts are collected currently. The last five items in this list are now in the hands of the Attorney General for collection or disposition. During the period under audit one account totaling \$44.06 was charged off as uncollectible with the authority of the Attorney General.

Verification notices were sent to all these outstanding accounts except those accounts with the Attorney General and acknowledgements were received from only approximately 25%.

**Ward Wage Monthly Reports:** It was noted that wage statements to boys have been sent out currently, but wage statements to girls have not been sent out since March 1951.

As it is an important function of the Girls Division to keep all of its wards who are out working informed as to what their balances are, it is suggested that these wage statements be currently mailed each month.

**Ward Wages - Accounts with the Attorney General for Collection:** It was noted that the Attorney General's Department never received for collection these items totaling \$57.34, even though this department's records indicate they were so forwarded. It was further noted that two accounts totaling \$51.91 were not charged off the records of this Board even though it was directed by the Attorney General.

It is therefore suggested that steps be immediately taken to bring the Board records into agreement with those of the Attorney General.

**Special Bank Account - Boys' Parole Branch:** In this connection the previous audit report stated:

"A fund of \$1,000.00 was set up to reimburse male wards for losses incurred by them because of irregularities in their respective savings accounts during the years 1943 and 1944. Payments from it totaled \$947.95 leaving a balance of \$52.05 in the fund.

"This account which is in the name of a former trustee, is on deposit in the State Street Trust Company of Boston.

"The balance is not carried on the books of the Board and the Executive Secretary of the Board indicated that this fund is not the property of the Commonwealth and the balance should be returned to the original donor.

"This fund has been inactive for some time, and it is believed that the matter of the disposition of the balance should be referred to the Youth Service Board."

Inasmuch as no action has been taken in the foregoing, attention is again called to it.

**Reimbursement for Support of Children:** Chapter 385 of the Acts of 1948 states as follows:

"The court may make an order for payment by parents or by the child's guardian out of the ward's property, or by any other person responsible for the care and support of said child, to the institution, department, division, organization or persons furnishing care and support at times to be stated in an order by the court of sums not exceeding the cost of said support after ability to pay has been determined by the court; provided, that no order for the payment of money shall be entered until the person by whom payments are to be made shall have been summoned before the court and given an opportunity to be heard. The court may from time to time, upon petition by, or notice to the person ordered to pay



such sums of money, revise or alter such order or make a new order, as the circumstances may require."

In certain cases where children are committed to the care of this Board by court order a parent is ordered to pay a designated amount for the support of the child. These payments are made directly to the Probation Officer of the court which has jurisdiction, who remits these collections to this Board.

In connection with the foregoing it was impossible to determine from the records the number of those parents who had been thus ordered to pay, nor was it possible to determine the periods that the reimbursements covered.

During the audit period the commitments comprised the following:

	<u>Boys</u>	<u>Girls</u>	<u>Total</u>
Regular Commitments	453	215	668
Temporary Commitments	116	72	188
	<u>569</u>	<u>287</u>	<u>856</u>

It is therefore suggested that a separate file card be kept for each case and that some system be provided so that these collections may be currently controlled.

Trustee Accounts - Cash Received from Other Sources: During this audit period there was received from "other" sources \$2,033.76 for boys and \$1,329.31 for girls. These amounts were received from the following sources:

Boys

Insurance Companies	\$1,028 24
Turned Over by Boys	1,005 52
	<u>\$2,033 76</u>

Girls

Turned Over by Girls	\$ 566 00
Relatives and Other	327 21
Insurance Companies	270 00
Federal Government	166 10
	<u>\$1,329 31</u>

The previous audit report called attention to the fact that there was on hand a bank-book with a \$10.00 balance in the Hyannis Trust Co. In this connection it was noted that this book had been properly transferred to the boy to whom it belonged.

Trustee Accounts - Inactive: The inactive savings bankbooks are supposedly kept separate from the active books for convenience in handling. The inactive bankbooks listed on the date of the audit totaled only 36 of which 26 were for girls and 10 were for boys. The records, however, show that there were 116 inactive accounts including 69 boys and 47 girls. These are boys and girls who are listed as runaways, of age, whereabouts unknown, discharged, in prison, deceased, out of state, in military service, etc.

It is suggested that savings bankbooks be segregated between active and inactive accounts in accordance with their actual condition.

Trust Funds: The trust funds are on deposit in savings banks as follows:

Male

Suffolk Savings Bank for Seamen and Other, Boston	<u>\$11,672 83</u>
--	--------------------

Female

Provident Institution for Savings, Boston	\$ 8,539 49
--	-------------



Boston Five Cent Savings Bank	\$ 2,159 49
Westborough Savings Bank,	
Westborough	<u>2,025 91</u>
	<u>\$12,724 89</u>

It was noted that during the current audit period bankbook No. 644359, Provident Institution for Savings with a balance of \$1.09 was sent to the State Treasurer to be added to the principal in the Female Trust Fund Securities. This amount was included in the State Treasurer's Trust Fund Securities Account while the Youth Service Board reflects this amount in the State Treasurer's Funds, Trust Fund Cash.

At a meeting of this Board held on November 26, 1951, it was voted to authorize the Supervisor of the Boy's Division to turn over to the State Treasurer bankbook No. 560160, in the Suffolk Savings Bank of Boston with a balance of \$1.32 to be added to the principal in the Male Wards' Trust Fund Securities. This amount was charged to the Male Wards' Trust Fund Cash on the books of the Youth Service Board.

At another meeting of the Board held on November 28, 1951, it was voted to authorize the Supervisor of the Girl's Division to turn over to the State Treasurer the following bankbooks to be added to the principal in the Female Wards' Trust Fund Securities:

Bankbook No. 649955 - Provident Institution for Savings	\$ 2 41
Bankbook No. 708580 - Provident Institution for Savings	18 46
Bankbook No. 646525 - Provident Institution for Savings	1 00
Bankbook No. 654090 - Provident Institution for Savings	<u>10 36</u>
	<u>\$32 23</u>

This amount was charged to the Female Wards' Trust Fund Cash.

At a meeting of the Board on November 26, 1951, it again voted to authorize the superintendent of the Lyman School for Boys to turn over to the State Treasurer a certain sum of money for the benefit of certain wards who have not been heard from for seven years or more, since becoming of age, said sums of money to be made a part of the Male Wards' Trust Fund. The total amount so transferred was \$2.58.

All the foregoing transfers were made in accordance with Chapter 241 of the Acts of 1927.

Suspense Account - Girls: It was noted that bankbook No. 604863 of the Provident Institution for Savings is included with the active trustee accounts under "Suspense Account". The balance in this account, as of the date of audit was \$9.64 and represented an accumulation of several balances of less than \$1.00 each and small interest items, and going back as far as 1939.

Savings Bankbooks held as Property: Five bankbooks not included with the Trustee Accounts were being held as property by the Youth Service Board on December 26, 1951. The individuals named on four of these bankbooks are according to available records over 40 years of age and the other is more than 21 years of age.

Upon examining these bankbooks it was noted that two of them totaling \$4.00 represented amounts too small to bear interest. The other three bankbooks totaling \$149.95 had balances which are bearing interest. Such interest totaling \$5.57 had not been currently credited however.

It is again advised that the Board consider the matter of disposition of these five accounts.

Recording of Cash Receipts in Girls' Division: It is suggested that the Girls' Division of the Youth Service Board keep a record similar to that of the Boys' Division for the purpose of recording cash, checks, money orders and war savings bonds received for its wards.

#### TREASURER AND RECEIVER-GENERAL

GENERAL DEPARTMENT

REPORT No. 52-44

Bank Reconciliations: The previous audit report stated:

- "1. Bank checks which had been returned by the various banks had not been sorted in consecutive sequence.
2. Reconciliations of the bank accounts had not been maintained currently."

It was noted that at date of this audit bank reconciliations were reasonably current.

The previous audit report suggested "that each adjustment shown on any reconciliation statement should show complete and correct explanations". As this suggestion has not been complied with, attention is again called to it.

Cash and Securities: The cash balance as per the books and records of the Treasurer and Receiver-General as of close of business December 10, 1951 was \$21,679,891.95 and the book value of the securities amounted to \$282,325,503.48 which included \$141,755,167.28 in the Unemployment Compensation Fund in Washington, D. C.

Assessments: Assessments due from cities and towns November 20, 1951 included an amount of \$34,957.77 due from the City of Boston. This amount represented 1/2 of the maintenance for the year ending June 30, 1951 of the Detention Center, 105 South Huntington Ave., Boston, and was assessed under Chapter 542 of the Acts of 1948, as amended by Chapter 549 of the Acts of 1950 and was collected in the general settlement of November 20, 1951.

For the purchase and alteration of this building at 105 South Huntington Avenue, \$120,000.00 was spent in the year ending June 30, 1950 and \$41,481.51 was spent in the year ending June 30, 1951. The City of Boston was assessed for neither of these amounts. The State Treasurer was informed of these two expenditures October 4, 1951 by letter but not by certification.

Section 2 of Chapter 542 of the Acts of 1948, as amended by Chapter 549 of the Acts of 1950 provides:

"For establishing and maintaining a place or places of custody under this act, the board may expend such sums as may be appropriated therefor. Not later than October first in each of the years nineteen hundred and forty-nine, nineteen hundred and fifty and nineteen hundred and fifty-one, the board shall certify to the state treasurer the total amount expended by it under this act during the preceding fiscal year. One half of such amount shall be assessed on the city of Boston as provided by section 20 of chapter fifty-nine of the General Laws."

It is suggested that this matter be referred to the Attorney General for consideration.

Certain Checks on Hand: It was noted that on date of audit checks payable to a former employee of the Metropolitan District Commission totaling \$11,012.35 were on hand due to inability to deliver. It was understood that this employee refused to accept his pay checks from October 1, 1943 to March 31, 1946, the date of his retirement. Retirement checks mailed to him were returned by the Post Office as being unable to deliver. It was also noted that this employee retired under the veterans act but did not apply for or collect the amount to his credit in the Retirement Fund which was \$4,888.98. It is understood that this matter is now under consideration and these checks will probably be transferred to the Unpaid Check Fund under authority of Chapter 759, Acts of 1951.

Contingent Debt - Sinking Fund Surplus: The previous audit report stated:

"It was noted that a Sinking Fund Surplus existed in each of the following Loan Sinking Fund Accounts as of the date of audit:

<u>Account</u>	<u>Sinking Fund Bonds Matured</u>	<u>Surplus</u>
Charles River Basin Loan	Jan. 1, 1950	\$201,300 18
Metropolitan Parks Loan	Jan. 1, 1949	28,892 44
Metropolitan Parks Loan, Series #2	Jan. 1, 1949	10,818 33
Metropolitan Sewerage Loan - No. System	Jan. 1, 1949	25,609 71



Metropolitan Sewerage Loan -  
So. System  
Total

Jan. 1, 1946 \$421,053 90  
\$687,674 56

"It is suggested that steps be taken to legally arrange the distribution of these surplus items to the various communities involved."

It was noted that this surplus which on November 20, 1951 amounted to \$716,619.83 was distributed to the municipalities concerned in the general settlement of that date under authority granted by Chapter 613 of the Acts of 1951.

Coupon Bond Interest Paid: In connection with this examination the paid bond coupons could only be reconciled to June 30, 1951 because these coupons had not been sorted beyond that date by the State Treasurer's Department. It was further noted that the postings to the coupon register were six months in arrears. Because of the foregoing, verification of these disbursements was made on a limited basis. It is suggested that these records be kept constantly current.

It was noted that the outstanding bond interest coupons due and unpaid as per the records as of June 30, 1951 totaled \$43,839.00.

Funds in Reserve Banks: The previous audit report noted that no interest was being received on such accounts and suggested that they be placed in banks on a Time Deposit basis. It was noted that this was done through agreements made with the banks effective January 1, 1951, providing for interest of 1% per annum.

Bonus Division - Overpayments: There was due the Commonwealth on December 10, 1951, on account of bonus overpayments, the sum of \$5,837.00 as follows:

Balance December 4, 1950		\$6,300 00
Add:		
New Overpayments (1946-1947)		<u>500 00</u>
		\$6,800 00
Deduct:		
Cash Collections	\$595 00	
Overpayments Allowed on Basis of		
Additional Information	<u>368 00</u>	<u>963 00</u>
Balance December 10, 1951		<u>\$5,837 00</u>

An analysis of the overpayments indicated that claims totaling \$1,269.00 were at the Attorney General's office for collection and were verified with the records in that Department. The balance of overpayments in the amount of \$4,568.00 consists of \$3,869.00 representing accounts more than five years old and \$699.00 representing accounts more than four years old.

It was further noted that under date of December 13, 1951, all of the cases making up the latter total of \$4,568.00, with the exception of three totaling \$258.00, were transferred to the Attorney General for collection.

It was also noted that the individual bonus overpayments formerly maintained in a notebook are now kept in a permanent ledger supported by a controlling account which is proved monthly with a trial balance of the ledger accounts.

Bonus Division - Uncashed Bonus Checks: An inventory of uncashed bonus checks in the State Treasurer's vault on December 10, 1951, returned by the postal authorities because of poor addresses, amounted to \$10,550.00 as follows:

Inventory December 4, 1950		\$16,550 00
Add:		
Checks Returned in Current Period		<u>500 00</u>
		\$17,050 00
Deduct:		
Checks Remailed to Proper Addresses in Current Period		<u>6,500 00</u>
Inventory December 10, 1951		<u>\$10,550 00</u>



An examination of these checks indicated that several were more than five years old and with the exception of \$500.00 are more than one year old. It is suggested that all checks over one year old be transferred to the Unpaid Check Fund.

**Veterans' Housing - Issue of Bonds under Permanent Financing:** As of July 1, 1951 fifty-four projects had entered Permanent Financing with bond issues totaling \$40,705,000.00. This amount included four different issues on a serial basis maturing over a period of forty years. The issues, rate of interest, etc., were as follows:

<u>Date of Bond</u>	<u>Amount</u>	<u>Rate of Interest</u>	<u>Maturities</u>
Oct. 1, 1950	\$10,109,000 00	1 3/4%	Oct. 1, 1951/90
Jan. 1, 1951	13,556,000 00	1 3/4%	Jan. 1, 1951/91
Apr. 1, 1951	9,251,000 00	1 7/8%	Apr. 1, 1952/91
July 1, 1951	7,789,000 00	2 1/8%	July 1, 1952/91
	<u>\$40,705,000 00</u>		

From the foregoing, it will be noted that the rate of interest paid increased from 1 3/4% on bonds issued in October 1950 to 2 1/8% on bonds issued as of July 1, 1951.

While these bonds have been issued in the names of the various local Housing Authorities concerned, they are nevertheless guaranteed as to payments of interest and principal by the Commonwealth of Massachusetts and as such are a contingent liability of the Commonwealth.

In this connection, attention is called to the fact that bonds issued directly by the State Treasurer, on dates comparable with those on which bonds were issued by the local Housing Authorities, showed a rate of interest which averaged 1/2% below the lowest bids on housing bonds.

Inasmuch as it will undoubtedly be necessary to issue at least \$150,000,000.00 more of such bonds, it is suggested that serious consideration be given to a revision of existing legislation to provide that further borrowings be made directly by the Commonwealth in order to take full advantage of the superior credit of the State.

Should this suggestion be adopted, it is estimated that an annual savings of several hundred thousand dollars per year will result at the time when complete financing becomes an accomplished fact. Needless to state, the savings when passed along will have a decided effect on the expenses of the projects with a resultant possible reduction in shelter rentals.

**Veterans' Services Fund:** This report presents a detailed statement of receipts and disbursements in the Veterans' Services Fund.

Income to this fund is derived from:

- |   |   |
|---|---|
| I Cigarette Tax                         | - provided by Section 9 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period   |
| II Alcoholic Beverages Tax              | - provided by Section 11 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period  |
| III Business Corporation Tax and Surtax | - provided by Section 10 of Chapter 731 of the Acts of 1945, as amended by Section 10A of Chapter 581 of the Acts of 1946, as further amended by Chapters 503 and 574 of the Acts of 1948 and Chapter 674 of the Acts of 1949 |
| IV Certain Unclaimed Funds              | - provided by Chapter 694, Acts of 1949, amended by Chapter 523, Acts of 1950   |

In addition, Section 8 of Chapter 669 of the Acts of 1948 provides in part as follows:

"All income, including federal subventions and grants, received by the Commonwealth from or on account of veterans in payment for Veterans' services, shall be credited to the Veterans' Services Fund."

(The veterans' services mentioned in the above Act are those which are paid from appropriations made from the Veterans' Services Fund.)

## STATE SUPERINTENDENT OF BUILDINGS

REPORT No. 52-45

Assignment of Rooms in State House and Elsewhere: Section 10 of Chapter 8 of the Tercentenary Edition of the General Laws, as amended by Section 4 of Chapter 249 of the Acts of 1938, and Chapter 440 of the Acts of 1943, referring to the Superintendent of Buildings, states:

"He shall, under the supervision of the governor and council and with the approval of the commission on administration and finance, assign the rooms in the state house and rooms elsewhere used by the commonwealth, and may determine the occupancy thereof in such manner as the public service may require ....."

In conformance with the foregoing statute, certain private service enterprises have been allotted rent-free space in the State House.

Advance Money: It is suggested that all checks received for payment of the cleaners' pay rolls be entered in the cash book. In this connection it was noted that only one check, an advance on account of two weeks' pay roll was entered during the period covered by the audit.

Bid and Specification Deposits: Cash received from contractors as deposits for plans and specifications is held in the office, and is returned when these plans are returned. These items of receipts and disbursements should be entered in the cash book; at present these records have been inadequately kept on work sheets, a separate sheet for each contract.

Personnel Not Bonded: It was noted that two employees who handle cash were not bonded. It is suggested that all employees handling cash should be bonded.

Accounts Receivable - Waste Paper: It was noted that sales made during the month of December 1951 and remaining unpaid January 2, 1952 totaled \$65.89 according to records in this department. In this connection it was noted that sales are not billed by the office, and no control account for Accounts Receivable is carried in the general ledger. It is suggested that the Comptroller's Bureau be contacted as to instructions for billing these sales, and the opening of a control account in the general ledger.

Rentals: The records of this department indicate that buildings, garages, and other properties are rented by the Commonwealth at an approximate annual cost of \$1,300,000.00. Leases are kept on file in the office of the Superintendent of Buildings.

Special Appropriations - New Elevators: It was noted that a contract was awarded to the lowest recorded bidder for the installation of ten new elevators, eight of which are in the State House and two of which are in the Ford Building. This contract was originally awarded to a general contractor for \$351,954.00, who at a later date submitted a proposal for four additional elevators to cost \$156,027.00. This entire contract together with architect's fees approximating \$31,000.00 and estimating contingencies of \$26,019.00 making the total cost for these fourteen elevators approximately \$565,000.00, was approved by the Massachusetts Public Buildings Commission in that amount.

It was noted that there were seven change orders for additions to the original contract, including the aforementioned proposal of \$156,027.00 for the four additional elevators totaling \$169,039.54 and one change order for a decrease in the amount of \$100.00. All these change orders were properly approved by the necessary parties, including the Massachusetts Public Buildings Commission.

It was further noted that the date of completion of this contract was extended from August 29, 1951 to October 21, 1952, and the collection of liquidated damages was waived in accordance with approvals by the proper authorities. It is understood that this contract was about two-thirds completed on the date of this audit.

In further connection with these elevators a letter from the Massachusetts Public Buildings Commission to the Superintendent of Buildings dated December 18, 1951 indicated approval for the purchase of thirty-two gongs and forty Gamewell auxiliary fire alarm stations for the new elevators at an estimated cost of \$8,940.00. These items will be purchased through the State Purchasing Bureau.



**Special Appropriations - Power Plant Improvements:** A contract, in this connection, was awarded to the lowest bidder of record for \$107,985.00. To the date of audit there were four change orders, three additions totaling \$3,588.73 and one decrease of \$1,484.00. These change orders were approved by the proper authorities.

This contract's completion date was originally set at September 20, 1951, however, a request for extension was properly granted to June 30, 1952, and the liquidated damages were waived.

The original appropriation of \$41,000.00 in June 1948 was carried in account number 8004-16. Two expenditures were made against this account, \$500.00 during 1949, and \$3,600.00 in February 1951, both for architect's fees. The \$3,600.00 was part of the total of an invoice of \$7,905.86, the remainder of which was charged to account number 7918-01. The balance of \$36,900.00 in 8004-16 is to be reverted. The unencumbered balance of \$122,000.00 in account number 7918-01 was \$6,579.65 as of January 2, 1952. A transfer of \$22,000.00 was made to this account from 7850-01 on November 27, 1950.

It is understood that this contract was about ninety per cent completed at the date of audit.

**Special Appropriations - Roof Repairs:** Under the Capital Outlay Program of 1948, Chapter 599, account number 8004-17, \$86,000.00 was appropriated for Roof Repairs. Contracts were awarded to an architect and to the lowest bidder of those seen. The original contract of \$56,350.00 was amended by change orders adding \$21,053.39 and deducting \$250.00. The unencumbered balance of this account on January 2, 1952 was \$419.91, the amount remaining after \$13,315.61 had been reserved by the Comptroller, and frozen for five years.

Under the Capital Outlay Program of 1950, Chapter 795, account number 7918-02, \$43,000.00 was appropriated for Roof Repairs. Charges to this account to the date of audit total \$14,163.79, of which \$13,576.79 were submitted by the contractor under 8004-17.

The original contract has been completed, but it is understood that final settlement has not yet been made with the original architect. Account number 8004-17 has been charged with architects' fees totaling \$2,760.09.

It is understood that a new contract for Roof Repairs is to be awarded, the cost of which is estimated at \$25,000.00. This contract has been advertised and bids will be opened on January 10, 1952.

Account number 7918-02 which has a balance of \$25,861.05 on January 2, 1952, after encumbrances of \$475.16 and \$2,500.00 are taken into consideration, will provide the funds for this purpose.

**Special Appropriations - Electric Wiring:** An appropriation of \$50,000.00 for Electric Wiring - State House, appears in account number 7918-04 under date of August 21, 1950. The unencumbered balance of this account as of the date of this audit was \$43,140.00.

Under account number 7704-04 dated November 2, 1951 there is another special appropriation of \$50,000.00 for Electrical Distribution Improvements.

Bids were advertised on December 20, 1951 for a contract for Electric Wiring which it is estimated will cost \$45,000.00.

**Special Appropriations - Plumbing:** An appropriation of \$35,000.00 dated December 2, 1951 under account number 7704-05, has been approved by the Massachusetts Public Buildings Commission to one architect, but no allotment for expenditures had been made up to the date of audit.

**Letter Contracts:** Section 8A of Chapter 29 of the General Laws, provides in part for the posting of a notice inviting proposals on contracts involving amounts from one thousand to five thousand dollars. However, contracts under one thousand dollars are awarded after proposals received by letter. Included among these so-called letter contracts awarded during the period covered by the audit were ninety-five agreements with three contractors, totaling \$46,034.00.

#### DIVISION OF SAVINGS BANK LIFE INSURANCE

REPORT No. 52-46

**Reimbursement to Commonwealth:** It was noted that the several factors and sets of figures which enter into the computation of these reimbursements are kept on separate working papers. It was also noted that the expenses as recorded by the division do not appear to have been reconciled with the Comptroller's annual statement of charges.

These matters were discussed with the division actuary and it was agreed that these



accounts would be correlated in a bound book so that a permanent record of these transactions would be available.

## EMERGENCY FINANCE BOARD

REPORT No. 52-47

Activities of Board: A summary of the statutes and the respective number of cases requiring board action or approval for the fiscal year ended June 30, 1951 follows:

<u>Description</u>	<u>Statute</u>	<u>No.</u>	<u>Pro Rata Expense</u>
Post War Rehabilitation	Chap. 5 Acts of 1943	14	\$ 1,700 00
Public Works Projects	Chap. 74 Acts of 1945	24	4,292 00
Creation of Stabilization Fund	Chap. 124 Acts of 1945	2	-
Extraordinary Repairs to			
Public Buildings	Chap. 275 Acts of 1948	24	2,074 00
Municipal Relief	Chap. 90 Acts of 1949	17	3,651 81
Use of Certain Loan Proceeds			
by City of Malden	Chap. 376 Acts of 1949	1	-
Formation of Regional			
School Districts	Chap. 638 Acts of 1949	20	1,918 00
School Building Assistance	Chap. 528 Acts of 1950	13	2,008 00
Totals for 1951 Fiscal Period		<u>115</u>	<u>\$15,643 81</u>

Total number of Board Meetings -  
1951 Fiscal Period

69

Salary - Statute Limitation: Attention is called to the fact that the salaries of the three members ex-officiis have been limited by statute to \$2,000.00 each in any fiscal year. It was noted, however, that these three members received a total of \$2,060.00 each during the fiscal year ended June 30, 1951. It was explained that this excess included two meeting dates, July 7, 1950 and July 19, 1950, which applied to the previous fiscal year. It is understood that an opinion of the Attorney General dated July 27, 1937 approved this payment.

Bookkeeping Records: The previous audit report noted that the allotment expenditure control register was discontinued as of June 30, 1949, and suggested that this record be restored for recording State expenditures. After this matter was reviewed by the Comptroller's Bureau it was decided that such a record was not necessary.

## BRADFORD DUFEE TECHNICAL INSTITUTE

REPORT No. 52-48

Tuition: The tuition at this institute has been established by the Board of Trustees as follows:

Residents of Massachusetts	\$100 00 a year
Non-Residents of Massachusetts	250 00 a year
Foreign Countries	500 00 a year

Trust Funds: Section 43 of Chapter 74 of the Tercentenary Edition of the General Laws, as amended by Chapter 257 of the Acts of 1946, reads:

"The board of trustees of each of said institutes shall be a corporation for the purpose of taking by gift, bequest, or devise any real or personal property."

As has been stated in previous audit reports, the Board of Trustees voted on November 4, 1932, to transfer the management of all funds entrusted to its care to the B. M. C. Durfee Trust Company in Fall River.

The agreement in effect allows the bank to retain the custody of the securities, collect and distribute the income subject, however, to the direction and vote of the trustees. A nominal charge is made by the trust company for these services.

It is again suggested that the several notes held in the Students' Aid Fund, totaling \$101.41 which appear to be uncollectible and have been outstanding for approximately 20 years, be charged off the books.

**Puerto Rico Industrial Development Fund:** This fund was established by the Puerto Rico Development Company to aid students from Puerto Rico attending this institute. The president of this institute is the trustee of the fund.

**American Association of Textile Chemists and Colorists Fund:** The Rhode Island Section of this Association donated \$1,000.00 to this institute to establish a fund to be known as the AATCC. The income from this fund will be used to award an annual prize to the student submitting the best paper on any subject related to textile chemistry with the first award to be made in 1952.

**Bookstore Accounts:** A reconciliation of the bookstore inventory for the period from February 1, 1950 to January 3, 1952 resulted in an apparent overage of \$323.77 which is 1.89% on net sales of \$17,138.38.

In connection with this activity, it was noted that no cash book is being maintained; that there was no record of daily cash sales; that expenditures were made directly from cash received from sales; and that, in many instances, there were no receipts on hand for such expenditures for miscellaneous expenses.

These matters were discussed with the president of the institute who indicated that corrective steps would be taken forthwith.

## DIVISION OF THE BLIND

REPORT No. 52-49

**Relocation of Cambridge Industries:** In October 1950 the moving of the Industries for Men from Lansdowne Street to 100 Inman Street in Cambridge was completed. The annual rent of the new location is \$8,520.00.

**Stock Ledger Balances - Finished Goods - Cambridge Industries:** A physical inventory of finished goods was taken on January 7, 1952. A comparison of the unit balances on brooms numbered 6, 7, 8, and 9 inventoried with the unit balances as shown by the stock ledger sheets on January 7, 1952 indicate a net shortage of 12 3/12 dozens. In this connection attention is called to the fact that when the Division took an inventory on June 30, 1951 a net overage of 95 10/12 dozens were found for comparable types of brooms. Attention is also called to the fact that the June 30, 1950 inventory taken by the Division indicated shortages of 149 5/12 dozens of brooms.

Because of the wide fluctuations in these inventories it is suggested that finished goods be counted monthly, until the present situation is corrected.

**Selling Prices of Manufactured Articles:** It was noted that a price list of all articles made at the Cambridge Industries and at the workshops at Fall River, Lowell and Pittsfield for sale to Governmental Institutions and Agencies of the Commonwealth was approved and issued in October 1951. The Division is now working on selling prices for the other industries.

**Accounts Receivable - Overdue Accounts:** On the date of audit there were outstanding overdue accounts receivable amounting to \$3,141.17 for the year 1950 and prior. Only a small number of these accounts are being collected. It is suggested that those deemed uncollectible or difficult of collection should be turned over to the Department of the Attorney General for collection or disposition. These accounts when turned over for collection should also be transferred to "Accounts Receivable Suspense Account" in accordance with instructions contained in the Comptroller's Manual. These accounts consist of the following:

	1950	1949	1948	1947 and Prior	Totals
Cambridge Industries	\$622 38	\$249 72	\$422 46	\$1,226 57	\$2,521 13
Woolson House Industries	22 88	48 46	162 81	25 75	259 90
Piano and Mattress	99 30	90 10	47 54	49 00	285 94
Salesroom	-	-	-	(3 00)	(3 00)
Fall River Shop	-	8 00	-	-	8 00
Lowell Shop	15 70	-	5 70	(3 00)	18 40
Pittsfield Shop	21 80	22 75	-	-	44 55
Worcester Shop	6 25	-	-	-	6 25
	<u>\$788 31</u>	<u>\$419 03</u>	<u>\$638 51</u>	<u>\$1,295 32</u>	<u>\$3,141 17</u>



**Jean M. LeBrun Fund:** Income from the investment of this fund was \$75.00 for the audit period. The expenditures were \$35.00 during the same period leaving a balance of income in the fund of \$67.19 on January 7, 1952. This fund is administered by the Director for higher education of blind students.

**Michael F. McCarthy Fund - Pittsfield Shop Fund:** The Pittsfield Shop was made a beneficiary under the will of the late Michael F. McCarthy. The Attorney General has ruled that the income derived from this fund must be used only for the benefit of the Pittsfield Shop. Income from this fund was \$1,200.00 for the audit period which included an "extra" of \$200.00 - this being the first extra since the fund became existent in 1944. There were no expenditures during this period and the fund balance on the date of audit totaled \$6,345.15.

**Educational Purposes Fund:** A cash donation of \$50.00 received with no restrictions was received on October 17, 1951 and deposited to the credit of this fund. This money, it is understood, will be expended in accordance with the provisions made in the statute which sets up the Educational Purposes Fund.

**Federal Participation - General Administration:** At present and in accordance with the approved plan of Federal participation in the expenses for "General Administration, Aid to the Blind," one-half of 5% of the salaries of the personnel in the bookkeeping department is reimbursed by the Federal Government. Of the expenses for rent and light 21.02% is paid by the Federal Government. One-half of 50% of the telephone expense is reimbursed to the State. The salaries of other members of the personnel are reimbursed on the basis of 50% of the following percentages:

Director	22%
Secretary to the Director	22%
Telephone Operator	50%
Senior Workers with the Blind (6)	100%
Guides to Blind Workers (3)	100%
Senior Statistical Clerk	100%
Junior Clerk and Stenographer (2)	100%
Junior Clerk and Typist	10%
Worker with the Blind	95%

It is understood that a new plan of participation is now under consideration because of the additional personnel and the new administrative features of the Division.

**General:** A report of a Special Commission established to "Make a Study of Certain Matters Relating to the Blind" was issued in December 1950 as House Document No. 1951.

As a result of this report the legislature enacted Chapter 676 on September 11, 1951 amending certain sections of Chapter 15 of the General Laws. Briefly, the new law establishes within the Division of the Blind five Bureaus as follows:

- Bureau of Medical Care
- Bureau of Individual Services
- Bureau of Rehabilitation
- Bureau of Industrial Aid and Workshops
- Bureau of Research

The new law also makes the Director "the executive and administrative head of the Division." It also states that "the advisory board shall exercise advisory powers only."

Chapter 673 also enacted on September 11, 1951 but containing an emergency preamble amends Chapter 69 of the General Laws. This Act defines the duties of the Director and the new Bureaus.

As of January 7, 1952 the new Bureaus were in the process of being organized. Funds to cover new positions, etc., have been requested in the supplementary budget to carry the work through June, 1952.

**General:** The statute under which this entity operates also provides that in conducting contractual or other research, tests or similar activities, it shall give preference to citizens of and to corporations organized under the laws of the Commonwealth, and that

no activities be undertaken which will be likely to interfere with the exercise of the functions of the Institute.

This Research Foundation actually began to function as a separate agency of the Institute on July 1, 1951 under control of the Board of Trustees acting through an especially created Board of Directors.

This Foundation is a unique agency and because of its anomalous position, there are certain questions which should probably be answered as soon as possible. These questions essentially deal with the status of its employees, whether or not state financial regulations must be followed in accounting for receipts and expenditures of funds, and the control of its purchases by the State Purchasing Bureau. In this connection a conference was held at which were present representatives of the Comptroller's Bureau, the Institute and the Foundation. As a result, the following letter to the President of the Institute was issued by the State Comptroller:

July 17, 1951

Mr. Martin J. Lydon, President  
Lowell Textile Institute  
Lowell, Massachusetts

Dear Sir:

The problems of the Lowell Textile Institute Research Foundation were discussed in detail at conferences which included Doctor Harold Webber, Executive Director and members of his staff, Mr. Everett Olson, Assistant to the President and Mr. Turner, a member of the Comptroller's Field Staff. The questions which were asked at these conferences have been reviewed in this Bureau and we are pleased to submit the following information which may be of assistance to the Trustees.

All revenue received by the Foundation must be transmitted to the State Treasurer for credit to the Fund account which has been established.

All expenses of the Foundation must be submitted to this Bureau on schedules for payment by the State Treasurer.

The establishment of salary rates and a determination of pay periods is the responsibility of the Trustees.

Regulations relative to travel and travel allowances should be promulgated by the Trustees.

The usage of State forms and Procedures is within the prerogatives of the Trustees.

Requests for Advance money to pay certain types of expenses will be given due consideration by this office when funds for this purpose are available.

Please notify this Bureau of any additional advice or assistance which may be necessary.

Very truly yours,

FRED MONCEWICZ  
Comptroller

By \_\_\_\_\_  
Deputy Comptroller

Even though the foregoing suggestions have been offered by the Comptroller as to methods, it is suggested that the Attorney General be consulted with respect to them. Inasmuch as this activity differs substantially from any now in existence under quasi-state jurisdiction, such clarification of methods and control would definitely appear to be in order.



Accounting Records: All financial transactions prior to July 1, 1951 in the name of the Foundation were handled through the office of the Bursar of the Institute.

Since that date a substantial part of the bookkeeping is still being performed by the Bursar's office, including the preparation of pay roll, the handling of advance money and the transmittal of income receipts to the State Treasurer. It would appear that the Foundation should be responsible for all of its record keeping. It is suggested that these functions be turned over by the Bursar as soon as possible. It is understood that the present accounting system is in the process of being revised and in this connection, it is suggested that formal and complete sets of accounts which embrace a cost accounting system for the proper determination of job costs be included. This type of accounting control is particularly important because there are certain contracts with the United States Government which permit the Comptroller General or any of his duly authorized representatives to examine the Foundation records for verification of costs. It was further noted that the services of a firm of certified public accountants has been engaged in this direction and that a representative of the Comptroller's Bureau has been assigned to correlate the state accounting records presently required.

Accounts Receivable: At the present time there is no control account for Accounts Receivable. These accounts, as of the date of audit, were indicated as follows:

Accounts with Bursar's Office	\$ 140 25
Accounts in Foundation Office	<u>6,107 60</u>
	<u>\$6,247 85</u>

The accounts with the Bursar were for services performed prior to July 1, 1951, before the Foundation office began to function. It is, therefore, suggested that the Foundation records be adjusted to include that amount. It is also suggested that control accounts for these items be included.

Amount Due to Lowell Textile Institute: Reimbursement to the Commonwealth for the use of facilities of the Institute was provided for at a meeting of the Executive Committee of the Board of Directors on July 13, 1951, as follows:

"It is agreed that the Foundation would recommend to the State that 15% of direct labor costs be the overhead payment to the State for the use of the Institute's facilities regardless of the nature of the facilities.

"Certain contracts in existence prior to the establishment of the 15% rate provided for only 10% overhead charges to customers. In these cases, the amount of reimbursement to the State will be at the rate of 10%."

In connection with the foregoing, an effort was made to determine the amount due to the Institute as of February 21, 1952, and as a result the following items still appeared to be due:

Use of Facilities:

February 1, 1951 to June 30, 1951	\$ 827 92
July 1, 1951 to February 21, 1952	2,581 15
Room Rentals a/c Textile Workshop Group	<u>160 00</u>
	<u>\$3,569 07</u>

It was also learned that the following items in this category not included with the foregoing have been paid or scheduled for payment:

Telephone Charges:

June 22, 1951 to January 21, 1952	\$ 314 43
Tuition and Fees for Fellowship Student, September 19, 1951 to June 6, 1952	575 00
Room Rentals a/c Textile Workshop Group	799 80
Use of Facilities	<u>61 20</u>
	<u>\$1,750 43</u>

Expenditures from Income Cash: It was noted that not all the cash received during the current fiscal year had been transferred to the State Treasurer. In this connection,

it was noted that \$176.65 of receipts had been retained in the Foundation office and was being used as a petty cash fund from which advances to employees and local cash disbursements were being made. The statute provides for the prompt transmittal of all revenue receipts to the State Treasurer. It is suggested that steps be taken to correct this situation by requesting an advance for petty cash purposes and transmitting all income cash to the State Treasurer.

**Fellowships:** Two graduate fellowships for advanced study in textile chemistry have been established at the Lowell Textile Institute and are offered to qualified graduates of the chemical engineering or chemistry courses. The sponsor of these fellowships is interested in encouraging promising young men in these fields to become better acquainted with the peculiar problems and needs of the textile industry.

These fellowships are, however, administered through this Foundation which pays the required tuition and fees to the Institute and a stipend to the student. It also remunerates faculty supervisors for supervision of research beyond normal academic requirements and pays the costs of the necessary supplies and equipment.

At present only one of these fellowships has been filled and this student is a resident of a foreign country. This particular selection was mutually agreed upon by the sponsor and the Foundation subject to his prior acceptance as a graduate student by the Graduate School of the Lowell Textile Institute.

**Time Devoted by Faculty Members of the Institute to Research Foundation Projects:** An analysis of the number of hours devoted by faculty members of the Institute to projects in the Research Foundation was made, covering the period from July 1, 1951 to January 31, 1952. Faculty members are compensated for services to the Research Foundation through the medium of a standard invoice and their earnings in the Research Foundation are in addition to their salaries as faculty members of the Institute.

It was noted in the case of one faculty member that he was employed on research projects for a total of 127 hours during the month of January 1952, this time being in addition to that required in his regular duties as a faculty member of the Institute. This matter was discussed with the president of the Institute and it was learned that steps had already been taken to place within reasonable limits the number of hours per month that faculty members may devote to Research Foundation projects and in this connection, a maximum of 60 hours per month for each faculty member for work done for the Research Foundation during the months from September through May inclusive, was proposed and will become effective on April 1, 1952.

**Bonding of Employees:** At the present time none of the employees of the Research Foundation is bonded. It is suggested that the Executive Director and the clerk who handles the cash be bonded.

## ATTORNEY GENERAL

REPORT No. 52-52

**Accounts Referred for Collection:** A so-called docket card is made out for each amount transferred to the Attorney General for collection. The docket cards are filed alphabetically under the name of the individual or concern who owes money.

The only matters referred to this office by the Department of Corporations and Taxation are corporations who have failed to file certificates of condition. If the Attorney General has been put to any expense, namely, the cost of serving papers by a deputy sheriff, such costs are charged directly when the return is filed. The chief clerk does not accept the \$10.00 fee for filing the annual certificate of condition, but makes certain that it is paid to the Secretary of State.

There appears to be no practical way that the Auditor can check the penalties and costs assessed by the Attorney General in connection with the filing of the certificates of condition.

Attention is called to the fact that several previous audit reports have stated as follows:

"The Attorney General uses his discretion as to whether suit shall be brought for the collection of the accounts, compromise the account or settle it without court action.

"Several previous audit reports have stated:

"If it is desired to arrange the records in the office of the Attorney General so that the State Auditor may make a satisfactory audit of these accounts, several changes in the set-up are necessary.



'The mere checking of the receipts showing on the docket cards to the cash book kept by the chief clerk does not constitute an audit of the accounts.

'1. The so-called card docket file which is arranged alphabetically by the names of the persons owing money should be supplemented by a file arranged by State Departments and Institutions and under each State subdivision there should be a record of each individual or concern owing money to that particular department or institution, and it should be the duty of whoever has charge of this record periodically to verify it by correspondence with the several departments and institutions.

'2. All entries, made in the above described file for accounts settled in any manner except by the payment of the amounts due, should be supported by authorizations signed by the officials responsible.

'In addition to the changes in the records, it will also be necessary to establish some definite policy for the chief clerk to follow, in handling delinquent certificates of condition.'"

As none of the above recommendations have been carried out by the Department, attention is again directed to them.

Bonds: It was noted that the chief clerk is now bonded for \$1,000.00.

Bookkeeping: The previous audit report included the following:

"It was noted that this office does not maintain a General Ledger nor an Allotment Control Register. It is suggested that the assistance of the Comptroller's Bureau be requested in this direction."

In this connection it was noted that an Expenditure Control Register is now being maintained by this Department. With reference to the use of a General Ledger, however, the Comptroller's Bureau under date of March 15, 1951 stated as follows:

"It is not believed that the installation and use of a General Ledger in the Attorney General's Department is warranted as the Allotment Expenditure Control Register will give adequate control over transactions pertaining to Allotments and Expenditures."

WALTER E. FERNALD STATE SCHOOL

REPORT No. 52-54

Maintenance Charges: An attempt was made to reconcile the pay roll deductions on account of maintenance with the new room cards recently installed. In this connection it was noted that the total represented by the cards was approximately \$4,300.00 less than the amount deducted from the pay roll.

In checking this matter it was noted that charges are made against the kitchen employees for one meal each day and is erroneously represented on the room cards. Rates on the cards are indicated on a monthly basis whereas the pay roll deductions are made on a weekly basis. In several instances names were omitted from the cards. It was also noted in one case that an employee had been charged 43 cents per week less than the correct rate.

It is suggested that the foregoing matters and any other reasons which may be determined as having been responsible for the aforementioned variance be forthwith corrected.

Farm Report: The farm report was checked and it was noted that the farm and herd records appeared to be in a most confused and disorganized condition.

In this connection the following evidences were noted:

1. No herd inventory record was available for a colony cow supposedly slaughtered in December 1950.
2. Two cows were reported slaughtered in November 1950, yet they appear as part of the inventory on December 31, 1950.

3. The census report did not agree with the herd books as follows:

	<u>Herd Books</u>	<u>Census</u>
Calves Born	111	113
Calves Died	9	11
Calves Sold	52	51
Calves Changed to Steers	2	-

4. In attempting to reconcile the farm costs with the financial records an unlocated variance of \$169.20 was noted.
5. An error in footing, \$1,000.00, the production column of the farm report was noted.
6. There were variances between the farm report and the financial records in beef and pork production.
7. The farm products to the storeroom and the farm production accounts in the general ledger did not agree with figures in the annual farm report.
8. The animal census report did not indicate the fact that calves were transferred to the heifer category.
9. Inventory Sheet J in the farm report shows no inventory valuation for machinery, wagons and tools at the beginning of the year.
10. The sheet in the farm report for the Dairy Project failed to indicate charges for milk fed, home produced hay, silage and green feed used. It was also noted that the costs were represented as several thousands of dollars more than the actual amount.
11. The horses and oxen project failed to represent the fact that the livestock was fed hay or green feed.
12. The swine sheet shows no charges for vegetables or garbage fed to pigs.
13. The depreciation and oil used figures are obviously in error on the farm tractor and truck sheets.
14. The farm labor figures also appear to be inconsistent because the 1949 farm report used an amount of \$22,441.23, while the corresponding amount in the 1950 farm report was represented as only \$3,173.78.

Because of the foregoing, it is obvious that the farm records and the related farm report have absolutely no possible value, and to continue without properly instructing the responsible employees is poor policy. It is therefore urgently recommended that the Comptroller's Bureau arrange to properly instruct the personnel on proper procedures, etc.

#### DIVISION OF BANKS

REPORT No. 52-55

Central Organization Fund: The balance in the Central Organization Fund on date of audit was \$1,075.33. There were no receipts in this Fund during the current audit period.

There is kept in a warehouse books and records of seven banks which were closed by the Commissioner of Banks and ultimately went into liquidation. It also contains documents or articles found in various safe deposit boxes of these banks which had been rented by persons whose present addresses are unknown. The contents of these boxes have been removed and placed in individual envelopes by a notary public in accordance with statute prior to being turned over to the Commissioner by the Director of Liquidations.

These envelopes include lapsed insurance policies, presumably worthless stock certificates, outlawed promissory notes, and similar documents which apparently are of no value to the Commonwealth.

Although the Commissioner was obliged to hold these papers only until August 31, 1949



under Section 35A of Chapter 167 of the Tercentenary Edition of the General Laws, as amended by Chapter 122 of the Acts of 1943, they are still being stored at this particular warehouse. It is again suggested that steps be taken to dispose of this property in accordance with this aforementioned statute.

**Examination of Banking Institutions:** Costs of examinations of trust companies, savings and loan associations, and Morris Plan banks are paid by the banks concerned. Charges for examinations of co-operative banks, credit unions, and savings banks are based on a percentage of the assets of the institutions concerned and do not in every case cover the complete cost of the examination.

In the period from November 29, 1950 to January 22, 1952, the costs and reimbursements were as follows:

	<u>Costs</u>	<u>Reimbursement Billings</u>	<u>Difference</u>
Miscellaneous Financial Institutions	\$ 630 60	\$ 630 60	-
Savings and Loan Associations	2,583 03	2,583 03	-
Other Banking Institutions	7,181 02	7,181 02	-
Credit Unions	71,756 58	27,167 40	\$ 44,589 18
Trust Companies	140,855 42	140,855 42	-
Co-operative Banks	190,972 62	179,844 02	11,128 60
Savings Banks	242,223 84	190,184 99	52,038 85
	<u>\$656,203 11</u>	<u>\$548,446 48</u>	<u>\$107,756 63</u>

#### BELCHERTOWN STATE SCHOOL

REPORT No. 52-56

**Materials and Supplies:** The adjustment requisitions made during the audit period were examined and tabulated. In this connection it was noted that the overage adjustments totaled \$1,820.18, while the shortages were \$3,209.65 or aggregate adjustments of \$5,029.83 on issues of \$337,397.11. The shortage adjustments included an adjustment for fuel in the amount of \$1,949.65.

**Bank Reconciliations:** On the date of audit, it was noted that the bank statements of the pay roll bank account for the past three months had not been reconciled. It is recommended that henceforth all bank statements be reconciled promptly after they are received.

#### METROPOLITAN STATE HOSPITAL

REPORT No. 52-57

**State Cash:** Attention is called to the fact that the cash and checks on hand on date of audit totaled \$4,356.01. This abnormal amount was caused by the fact that deposits are not being made promptly on the receipt of the cash.

It was also noted that funds are not being transferred to the State Treasurer weekly as is required.

It is therefore suggested that cash be deposited more frequently in the local depository and that revenue be transferred to the State Treasurer at least once each week.

**Income - Food Overdrafts:** Previous audit reports have stated:

There are four items of food overdrafts dated back to 1948 and totaling \$587.40 which are still outstanding. These represent the following:

B. R.	\$296 98
C. B.	38 89
M. A.	143 46
S. W.	108 07
	<u>\$587 40</u>

It is suggested that a serious effort be made to affect collection of these items. If this is unsuccessful, the Attorney General should be informed of them for necessary action.

"In connection with the foregoing it was noted that the amount owing by B. R. and C. B. are still uncollected. It is therefore suggested that they be forthwith turned over to the Attorney General for disposition."

In reference to the foregoing it was noted that the last three items indicated were collected, and the first item has been turned over to the Attorney General for disposition.

**Special Pay Roll Bank Account:** It was noted that the pay roll bank account had not been reconciled since September 30, 1951.

This reconciliation should be brought up to date at the earliest opportunity.

**Materials and Supplies:** A physical inventory of the materials and supplies accounts indicated that several articles have been charged off as so-called "expense items" although they were still in the institution storeroom. These items included the following:

<u>Article</u>	<u>Units</u>	<u>Value</u>
Brooms, Street	12	\$ 10 20
Coats, Women Light	90	180 00
Coats, Women Heavy	50	237 50
Ski Jackets	59	29 50
Raincoats, Girls	25	Received at no cost
Raincoats, Boys	42	Received at no cost

Obviously the charging of such articles directly to "expense" tends to defeat the purpose of any inventory control system. This situation was discussed with the institution officials and the necessary adjustments were made correcting the account involved.

**Inventory Adjustments:** It was noted that all inventory adjustments of \$100.00 or more do not bear the necessary signatures of approval.

It is suggested that all such adjustments be approved in accordance with the instructions on page 68 of the Comptroller's Accounting Manual which states as follows:

"An adjustment of a single item amounting to \$100.00 or more must be approved by both the superintendent and the department."

Further analysis of these items also indicated that large adjustments on account of Fowl and Chicken are frequently made. It was explained that this was made necessary because of the loss of weight in dressing.

**Patients' Funds - Cash:** While balancing cash it was noted that there was \$1,281.83 in cash on hand. On checking it was found that the last previous deposit had been made on January 28, 1952, while no deposit had been made between December 27, 1951 and that date.

It is suggested that these deposits be made more frequently.

**Patients' Funds - Bank Statement:** It was noted that there were four checks outstanding since 1949 and eighteen since 1950.

It is suggested that payment be stopped on these checks and the proceeds be added to the Patients' Fund.

**Trial Balance:** The trial balance of patients' accounts taken on January 28, 1952 did not agree with the cash balance. In this connection it was learned although trial balances are taken monthly they have not been in agreement with the control account since May 31, 1951.

It was also noted that there are several inactive patients' accounts which are filed together with the active patients' accounts. It is suggested that these accounts be segregated.

**Discharged Patients' Funds:** Previous audit reports have commented on the large amounts of money belonging to discharged and transferred patients which are on hand.

The suggestion is repeated that an effort be made, if practical to locate these former patients so that proper transfers may be arranged. It is also suggested that arrangements be made so that all information with respect to the discharged and transferred patients will clear through the Treasurer's office before they actually leave the institution.



It was also noted that there is included an account in the amount of \$7.16 which is "Unknown". This represents monies received several years ago from unknown persons for unknown patients.

**Patients' Cash Receipt Books:** It was noted that receipts account of patients' funds are being improperly prepared. The third or so-called auditor's copy is not being used.

It was further noted that the dates when monies are received by the various supervisors and the dates when the cash is turned over to the institution treasurer vary from two to seven days.

All supervisors receiving patient cash should be advised to turn money over to the institution treasurer on the next succeeding business day after the cash is received.

**Patients' Cash Book - General:** In connection with this folio several errors in footings were noted.

It was also noted that the disbursements on account of purchases at the canteen were understated in the amount of \$36.25 and overstated in the amount of \$21.53, a net understatement of \$14.72.

It is suggested that the Patients' Fund reimburse the Canteen Fund for the amount of this understatement.

**Patients' Bankbooks:** Attention is called to the fact that patients' bankbooks have not been verified by the respective banks for a number of years.

It is suggested that all these books be sent to their banks concerned at least once a year so the balances may have any earned interest properly credited.

It was also noted that there were on hand two bankbooks belonging to discharged patients and one bankbook belonging to a deceased patient.

It is suggested that arrangements be made to properly dispose of these items.

**Patients' Valuables:** Included with the patients valuables was found cash, unindorsed checks and money orders, some of which date back to 1934 as follows:

Cash	\$ 90
Checks	339 45
Money Orders	20 00
	<u>\$360 35</u>

It is suggested that efforts be made to dispose of these items so that the patients concerned may have the use of the proceeds.

**Canteen Accounts - Cash:** On the date of audit, cash totaling \$962.43 was found on hand in the office. It was also learned that no deposit had been made between December 28, 1951 and January 28, 1952.

It is advised that deposits be made more promptly. It is further suggested that such deposits be made in the exact amount of the canteen receipts, which they supposedly represent.

It was also noted that there are many cash purchases of merchandise being made daily. In this connection it is suggested that arrangements be made with vendors so that the canteen will be billed periodically.

**Canteen Cash Book:** It was noted that the cash receipts for the month of May 1951 were incorrectly footed, resulting in an overstatement of cash receipts.

It is suggested that the necessary adjustments be made.

**Canteen Ledger:** Attention is called to the fact that postings to the canteen general ledger have not been made since June 30, 1950.

It is suggested that this ledger be currently maintained.

**Canteen Inventories:** Although physical inventories of the canteen have been taken monthly, no comparison between the book inventory and the actual inventories are available.

It is suggested that these comparisons be made monthly and that the proper adjusting entries be subsequently passed through the accounts.

**Canteen Cash Over and Short:** It was noted that the canteen cash book reflected net cash overages of \$60.99 on account of the sales in the canteen, cafeteria and bowling

alleys as follows:

<u>Month</u>	<u>Overage</u>	<u>Shortage</u>	<u>Net Overage</u>
June 1951	\$ 8 92	\$ 51	\$ 8 41
July	9 58	1 04	8 54
August	11 83	2 73	9 10
September	2 66	-	2 66
October	17 53	80	16 73
November	9 95	2 16	7 79
December	4 00	1 75	2 25
January 1 - 28, 1952	6 19	68	5 51
	<u>\$70 66</u>	<u>\$9 67</u>	<u>\$60 99</u>

# UNIVERSITY OF MASSACHUSETTS AT FORT DEVENS

REPORT No. 52-59

Closing of the College: Buildings formerly used by the college at Fort Devens were turned back to the United States Government as of October 31, 1949 and as of that date there were no more employees on the pay roll of the college. All financial records including accounts receivable have since been maintained under the control of the State Purchasing Agent in the State House, and will continue under his direction until such time as all financial transactions have been consummated.

All accounts receivable in the amount of \$188.22 have been transferred to suspense accounts receivable account and placed in the hands of the Attorney General for collection.

The unexpended special appropriation balance of \$332,745.67 was reverted to the General Fund on May 19, 1951 under Chapter 308 of the Acts of 1949.

# ALCOHOLIC BEVERAGES CONTROL COMMISSION

REPORT No. 52-60

Prompt Return of Income: In this connection, Section 27, of Chapter 30 of the Tercentenary Edition of the General Laws, states as follows:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the state treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments may be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."

On the date of audit the following funds were found to be on hand in the office of this Commission, which had been on hand for a long period of time:

<u>Date of Application</u>	<u>Date Received</u>	<u>Cash</u>	<u>Checks</u>	<u>U. S. Postal Money Order</u>
May 3, 1951	May 8, 1951	\$ 6 00	-	-
October 24, 1951	October 28, 1951	-	\$ 2 00	-
October 25, 1951	November 9, 1951	-	10 00	-
November 1, 1951	November 23, 1951	-	2 00	-
November 19, 1951	November 21, 1951	-	2 00	-
November 26, 1951	November 27, 1951	-	1 00	-
November 24, 1951	November 27, 1951	-	1 00	-
November 24, 1951	November 28, 1951	-	-	\$1 00
November 29, 1951	November 30, 1951	-	2 00	-
November 28, 1951	November 30, 1951	-	6 00	-
November 28, 1951	November 30, 1951	-	6 00	-
November 26, 1951	November 30, 1951	-	6 00	-
November 30, 1951	December 7, 1951	-	6 00	-
December 1, 1951	December 21, 1951	-	2 00	-
December 5, 1951	December 10, 1951	-	6 00	-
December 7, 1951	December 10, 1951	-	6 00	-
December 3, 1951	December 10, 1951	-	6 00	-
December 3, 1951	December 12, 1951	-	1 00	-
December 10, 1951	December 12, 1951	-	1 00	-
December 14, 1951	December 27, 1951	-	10 00	-



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December 14, 1951	December 18, 1951	-	\$ 1 00	-
December 17, 1951	December 18, 1951	-	1 00	-
December 17, 1951	December 19, 1951	-	6 00	-
December 20, 1951	December 27, 1951	\$ 1 00	-	-
No Date	January 2, 1952	-	2 00	-
January 5, 1952	January 21, 1952	6 00	-	-
January 5, 1952	January 21, 1952	6 00	-	-
January 5, 1952	January 8, 1952	-	1 00	-
January 1, 1952	January 4, 1952	3 00	-	-
Totals		<u>\$22 00</u>	<u>\$87 00</u>	<u>\$1 00</u>

It is suggested that steps be taken to enter and clear the foregoing funds at once. If at a later date, a refund is deemed necessary, it should be arranged through the channels provided by the accounting system of the Commonwealth

Recording of Cash for Serially Numbered Licenses and Permits: At the present time, there are twenty-two classifications of serially numbered licenses and permits with fourteen different classifications of fees, one of which includes a tax. This income is recorded in the eight columns of the general cash book provided and is transmitted to the State Treasurer under fourteen different code numbers.

Because of the present system of income classification, it is a very difficult and almost impossible task to reconcile income from this source on a potential basis through license and permit inventories.

It is, therefore, suggested that a special columnar cash book be provided, so that each classification of serially numbered license and permit for which a fee is charged, will be entered in a separate column.

Departmental Income: It is suggested that a departmental income account be set up in the general ledger. Such an account is quite necessary from an objective accounting point of view.

Pending Refunds: As of the date of audit, the following income refunds were still pending:

<u>Date Received</u>	<u>Class</u>	<u>Amount</u>
November 26, 1951	Salesmen's Permit	\$10 00
December 11, 1951	Salesmen's Permit	10 00
December 13, 1951	Salesmen's Permit	10 00
December 28, 1951	Salesmen's Permit	10 00
December 7, 1951	Salesmen's Permit	10 00
December 20, 1951	Salesmen's Permit	10 00
December 13, 1951	Salesmen's Permit	10 00
December 29, 1951	Salesmen's Permit	10 00
December 3, 1951	Transportation Permit	1 00
December 6, 1951	Transportation Permit	1 00
December 27, 1951	Transportation Permit	1 00
December 28, 1951	Transportation Permit	1 00
December 28, 1951	Transportation Permit	5 00
December 26, 1951	Transportation Permit	1 00
December 7, 1951	Transportation Permit	1 00
December 20, 1951	Transportation Permit	1 00
December 29, 1951	Transportation Permit	1 00
December 11, 1951	Express Permits	1 00
December 11, 1951	Express Permits	1 00
December 5, 1951	Certificates	6 00
December 5, 1951	Certificates	6 00
December 5, 1951	Certificates	6 00
		<u>\$113 00</u>

Maintenance Stores: In connection with this current examination a test inventory was taken on February 13, 1952 of items in the storeroom with a book value of \$15,380.95.

As a result, shortages totaling \$88.10 and overages totaling \$113.27 was indicated and involved almost 50% of the respective items taken.

It was noted that the account for Hog Ration had a credit balance of \$14.72 with no units. This account has been on the stock ledger in this position since 1948.

It is suggested that this account be properly adjusted.

**Inmates' Per Capita Cost:** Based on the average population for the fiscal year ended June 30, 1951, the gross weekly per capita cost was \$26.11, and represents an increase of \$1.21 per inmate over the previous fiscal year.

**Bonded Employees:** It is suggested that all employees who handle cash and sign checks be bonded.

**Maintenance - Accounts Receivable:** Included with the accounts receivable is one representing a charge made to the State Prison in the amount of \$19.00 in May 1950. This charge was for labor. It is suggested that it be turned over to the Attorney General for disposition.

**Maintenance - Officers' Uniforms Purchased Through Appropriations:** It is suggested that a stock ledger account be maintained for the control of officers' uniforms.

**Maintenance - Journal Entries:** It is suggested that all journal entries be self explanatory and that they be signed and approved by the proper personnel.

**Canteen Fund:** The expenditures for the benefit of inmates during the audit period follows:

Athletic Equipment	\$1,648 67
Neckties	550 50
Prizes	488 35
Books	410 22
Movie Operator	375 00
Radio Parts and Repairs	367 15
Diaries	336 00
Transportation and Express	265 62
Sheet Music and Musical Supplies	241 04
Ice Cream and Candy	138 65
Movies, Etc.	79 53
Repairs	52 80
Supplies and Decorations	36 71
Officiating	20 00
	<u>\$5,010 24</u>

It was noted that the canteen cash book does not indicate any references to shortage or spoilage items and it is therefore suggested that these items be recorded each month.

It was also noted that the Employees Federal Pay Roll Old Age Benefit Tax is not being deducted from the employee's wages, but is being paid as part of his salary.

**Industries - Sales Below Cost and Price Lists:** It was noted that the first catalogue or price list published since 1941 was made available for the Industries during the current audit period.

A test check of sales was made of 28 items in the Cloth Department during the current period. Of the items checked the following were sold below the represented book costs:

Items	Unit Cost Price	Unit Selling Price
Sheeting	\$1 29	\$ 70
Shirting	1 60	73
Ticking, Blue and White	1 87	85
Overcoating	4 55	3 10
Concord Suiting	3 65	3 20
Mackinaw Cloth	3 71	3 05
Denim	1 58	75
Blankets #300	7 17	5 35



Blankets #350	\$ 8 51	\$5 25
Blankets #424	6 11	4 50
Blankets #580	9 70	6 50
Blankets #675	8 68	6 50
Blankets #680	9 99	7 25
Blankets #690	15 74	8 50
Blankets #691	15 74	8 50
Blankets #692	15 74	8 80
Blankets #693	15 74	8 80
Blankets #694	15 74	9 00

The foregoing variances were discussed with the Supervisor in charge of the Cloth Industry. He indicated that excessive overhead charges occasioned principally by heavy heat, light and power costs; and a shortage of inmate labor have caused these disparities. In this connection attention is also called to the fact that by statute the selling prices are restricted as follows:

"The price of all articles shall conform as nearly as possible to the whole-sale market rate for similar goods in the open market."

**Industries - Heat, Light and Power:** It was noted that Heat, Light and Power charges have increased from \$10,538.00 in 1934 to \$35,126.40 in 1951, approximately 300%. Of this amount the Cloth Industry bears 75%, the Furniture Industry 25% and the Auto Repair Industry none. It is again suggested that the basis for these charges be reviewed so that all industries involved will bear their true proportionate shares.

**Industries - Unfilled and Incomplete Sales Orders:** On February 13, 1952 the date of the current audit, there were 218 orders unfilled. These unfilled orders date back to March 1950. The reasons given for the large number of unfilled orders was inexperienced personnel and turnover of available inmates.

**Industries - Processing System:** It was noted that the Industries does not have a control account for processing in the general ledger. Inasmuch as there was approximately 40,000 lbs. of waste with an estimated value of \$15,000.00 on hand, it is suggested that the Comptroller's Bureau be requested to provide means for proper accounting control.

#### STATE TEACHERS COLLEGE AT WORCESTER

REPORT No. 52-62

**Cash Overage:** In reconciling the cash on hand on date of audit an overage of \$100.54 was noted. On the date of the previous examination, an overage of \$7.09 existed, and on May 4, 1951, when the cash was balanced because of the resignation of the principal clerk, an overage of \$44.14 was noted. This overage should be sent to the State Treasurer as miscellaneous income. It is also suggested that the cash be balanced daily so that variances may be traced without delay.

**Standard Triplicate Sales Books Not in Use:** These sales books should be used in making miscellaneous sales at the college. It is therefore recommended that a supply be procured from the Purchasing Bureau Supply Room for this purpose.

**Old Balance - Special Appropriation:** There has been a balance in the State Treasurer Special Appropriation Account in the amount of \$83.44 since March 31, 1949 without any activity. This is a reserve for encumbrances under an old appropriation for exterior Repairs. It is suggested that steps be taken to review the status of this item.

**Income from Cafeteria:** Although a cafeteria is operated by a private individual in the college building, no income from this source was noted on the books of the college.

**Income from Vending Machine:** There is a Coca-Cola machine located in the cafeteria of the college building. It was learned, however, that the income from it is given to the Students' Activities Fund.

**Out-of-State Student Not Charged Established Rate for Tuition:** It was noted that an out-of-state student was charged the rate established for residents of Massachusetts. This matter was brought to the attention of the college president and it was understood that the student will be charged the proper rate.

**Accounts Receivable - Semester Fees:** Responses received in reply to verification notices sent out on the outstanding accounts receivable on date of audit indicated in several instances that the charges applicable to students for the second semester of the current school year did not apply, since the students had attended only a part of the first semester and therefore were erroneously charged for the second. It is therefore recommended that the college review all outstanding accounts and make adjustments where necessary.

## STATE PRISON COLONY AT NORFOLK

REPORT No. 52-63

### Maintenance Section

**Accounts Receivable:** In conformance with a suggestion in the previous audit report the amount of \$566.67 which was owed for house rent by an employee was referred to the Attorney General for collection. This balance had accumulated over a period of several years. Upon the recommendation of the Attorney General, the institution has ceased making pay roll deductions for this rent, when an eviction notice was served upon the employee.

It was also noted that the individual has agreed to pay \$5.00 a month until the debt is liquidated.

### Industries Section

**Adjustments:** It is noted that the inventory adjustment totals shows a substantial increase for the year 1951 over the two previous years. The total adjustments for 1951 were \$3,614.09 as compared with \$1,999.06 for 1950 and \$1,039.25 for 1949. It is suggested that steps be taken to reduce them to a minimum.

**Raw Materials Inventory:** It was also noted that the ratio of the raw materials inventory to the cost of sales indicated a substantial increase over the previous year. The percentage for 1951 was 60.35% as compared with only 46.25% for 1950. It was also noted, however, that the ratio of the finished goods inventory to sales shows a slight decrease for the year 1951 over that for 1950.

**Profit from Operations:** The profit for the 1951 fiscal year was \$111,668.26 as compared with \$121,955.59 for the 1950 year. This decrease was principally due to a reduction in total sales together with increased costs of raw materials. The percentage of net profit in 1951 was 20.49% as compared with 21.34% in 1950. Substantial gains in profits were reported by the Metal, Tobacco and Shoe Shops over 1950, whereas, the Clothing, Concrete and Mattress Shops showed decreases in profits.

**Inmates' Compensation Fund:** The balance in this fund as of the date of the current audit was \$17,963.32. This balance, however, does not include \$1,239.64, which is the excess of 20% of the Net Profit for the quarter ending June 30, 1951. Approval for this transfer from the Surplus Account has not as yet been received.

## OUTDOOR ADVERTISING AUTHORITY

REPORT No. 52-64

**Change of Address:** The Outdoor Advertising Authority, which was formerly located at 100 Nashua Street, Boston, moved its offices to 80 Boylston Street, Boston in May 1951. A three year lease effective May 1, 1951, was obtained at an annual rental of \$2,100.00.

**Licenses to Engage in the Business of Outdoor Advertising:** It was noted that printed serially numbered license forms are being used in conformance with the recommendations contained in the previous audit report.

**Application Register:** An application register is maintained to record the receipt and disposition of each application for a permit. These are, however, frequently not listed in this folio as they are received. In order to insure better control, it is recommended that these applications be promptly entered in the application register.

**Renewal Permits:** It was noted that renewal permits are now being issued approximately eight to nine months after their effective date. As the fees for these renewals are



payable within ten days of the receipt of the permit, it follows that a billboard could be used for this interim period and then the permit could be cancelled prior to the payment of the required fee. This might result in a probable loss of revenue.

It is suggested that steps be taken to insure the issuance of the renewal permits promptly after their effective dates.

**Renewal Applications:** It was noted that twenty-two renewal applications which were received during this audit period were paid for on March 6, 1952 in the amount of \$66.00.

**Control of Active Billboards:** The system for handling renewal applications and permits was reviewed and indicated a lack of control over the active billboards. In this connection it is suggested that the active permits issued in one year should be compared with the renewals of the following year. All permits of the prior year should be accounted for either by renewal applications or by cancellations.

#### COMMISSIONER OF VETERANS' SERVICES

REPORT No. 52-65

**Spanish War Reimbursement Fund:** On the date of audit the balance of cash in the principal account was \$418.50, and in the income account \$1,071.82 or a total of \$1,490.32. A review of expenditures for the past 10 years indicates that in only one year did the expenses exceed \$300.00 which has been less than the income received each year from investments.

**Reimbursement to Cities and Towns for Veterans' Benefits:** On June 30, 1951 there was encumbered the sum of \$27,762.79 representing 1951 liabilities. On the same date there was also owing to cities and towns the amount of \$1,870,067.72 for the months of November 1950 through June 30, 1951. This latter amount was reimbursed from the 1952 fiscal year appropriation in the months of July and August 1951.

**Reimbursement to Cities and Towns for World War II Allowances:** On June 30, 1951 there was \$22,464.26 owing to the various cities and towns for the six months ending June 30, 1951. This amount was also reimbursed in July and August 1951 from the 1952 fiscal year funds.

#### BOSTON PSYCHOPATHIC HOSPITAL

REPORT No. 52-66

**Sale of Meal Tickets:** The cash book indicated that \$8,661.00 was received from the sale of meal tickets to employees for the audit period. It was also noted that the records further indicated that the treasurer issued meal tickets having a face value of \$8,070.00 to the nursing office for free distribution to the student nurses during the same period. It was learned, however, that the nursing office maintained no record of the distribution of these tickets so that it was impossible to determine whether the tickets were issued to proper individuals. This matter was discussed with institution personnel and it was learned that after March 18, 1952 the nursing office will keep a record showing the disposition of all meal tickets by serial numbers together with the signature of the respective student nurses.

It is also suggested that the practice of issuing the same type of tickets to both paying employees and non-paying employees is not in accordance with sound bookkeeping practice as it complicates the accounting of income. It is therefore recommended that meal tickets intended for free distribution should be identified in some distinctive manner.

**Board of Patients:** As of the date of audit there were 126 patients in this institution of which 111 were not paying any board, and the remaining 15 were paying at rates which varied from \$5.00 to \$10.00 per week. Although the maximum rate of board is apparently \$60.00 weekly the superintendent is empowered to set rates that are compatible with the financial background of the individual patient and/or their families. All weekly board contracts are prepared in the executive office and are required to have the approval of the executive officer. An examination of the weekly board contracts in effect on the date of audit and a test check of contracts in force during the audit period indicated that less than 25% bore the signature of the executive officer. It was also noted that no record of the financial details concerning the patient upon which the weekly board rate is allegedly established was maintained in the executive office. In view of the fact that only \$20,627.14 was received for patients' board during the 1951 fiscal year, and that the institution operated at a deficit of \$642,778.45 for that period, it is obvious that these weekly board contracts should receive a more active interest from the officials of the institution.

**Accounts Receivable:** An analysis of the Accounts Receivable control account indicated that 1,321 accounts with balances totaling \$29,578.05 were charged off the books as uncollectible during the current audit period. These accounts represented charges made from the 1932 through the 1945 years. The balance outstanding on the date of audit was \$14,836.99 of which \$14,265.13 represented charges applicable to the years 1945 through 1951. Since the institution does not maintain an adequate follow-up system, it is quite likely that most of these accounts will also fall into the category of uncollectible items unless steps are taken to correct the present system.

It was further noted that the Accounts Receivable included approximately \$720.00 from patients whose addresses at present are unknown, and an additional \$130.00 from patients who allege they have paid in full.

All patients' accounts are now kept in one ledger as was recommended in the previous audit report.

**Southard Clinic Fees:** The institution cash receipts book for the audit period indicated that clinic fees totaling \$5,788.00 were received from the Southard Clinics. These fees range from fifty cents to ten dollars and are established by a social worker after an interview with the patient on the occasion of the first visit. The amount of fee to be paid subsequent to that visit is recorded upon an Appointment Card which is given to the patient. The patient pays the fee indicated on the card to the Clinic secretary but does not receive a serially numbered receipt. The secretary simply initials the card and returns it and later records the fee in a Clinic cash book. This method does not provide adequate internal control. The Clinic should issue serially numbered cash receipts in duplicate and also submit a daily report of patients treated, etc., to the institution treasurer.

It was also noted that fees totaling \$983.00 received during the audit period were in payment of fees for services previously rendered and some applicable to the prior audit period. It was also not possible to ascertain the fees due from patients on date of audit because of the lack of proper records. It is therefore suggested that the necessary action be taken to correct the foregoing conditions.

**Rent Income:** It was noted that the records indicated \$5,261.97 as being received from employees for rent during the audit period. The potential rent due from the employees based on 100% occupancy of the 49 rooms available during this same period amounted to \$5,708.52. Because no room occupancy records were being maintained by the housekeeper it was impossible to determine the actual loss of rent resulting from vacant rooms and consequently the income received from rent could not be reconciled with the potential rent for the audit period. It is therefore suggested that the housekeeper maintain complete records that will show the rooms vacant as well as those occupied by employees.

**Materials and Supplies:** An analysis of the Materials and Supplies Account for the audit period indicated inventory shortage adjustments totaling \$1,513.99 as follows:

<u>Date of Entry</u>	<u>Amount</u>	<u>Period Applicable</u>
June 30, 1951	\$ 903 35	December 15, 1950 to June 30, 1951
June 30, 1951	524 06	July 1, 1949 to June 30, 1951
January 31, 1952	86 58	July 1, 1951 to January 31, 1952
	<u>\$1,513 99</u>	

The first item represented the total accumulated book value of beef bones and trim from December 15, 1950 to June 30, 1951 resulting from the practice of the institution storeroom charging the beef in its entirety to the stock ledger but crediting the account with only the actual weight of the beef issued without bone or trim. The storekeeper sold the beef bones and trim as waste during the first six months of 1951 but the beef account was not credited in the stock ledger with the issue value of these sales. This practice of issuing beef from the storeroom boned and trimmed was discontinued as of July 1, 1951.

The second item represented the accumulated value of Food and General Supplies shortages from July 1, 1949 to June 30, 1951.

**Special Gift Fund:** The treasurer's records indicated that donations were received by the Special Gift Fund aggregating \$10,455.75 for the audit period. The individual amounts received ranged from ten dollars to three thousand dollars, and only the larger



donations were acknowledged by letter. As it is the generally accepted practice of organizations receiving public donations to acknowledge all amounts respective of size, by the issuance of receipts, it is suggested that a comparable practice be initiated in connection with this fund.

**Nursing Research Fund:** On July 11, 1951, this institution received a grant of \$12,860.00 from the American Nurses' Association for one year for a study to investigate the effect of specified factors on mentally ill patients. This grant cannot be used to purchase or rent equipment. In consideration of this grant the institution agreed to furnish or make available to this organization the materials and findings resulting therefrom. It is also understood that the Association is not committed to continue its financial support in subsequent years. The expenditures to date of audit totaled \$5,986.45.

**Psychiatric Aide Fund:** At a meeting of the Board of Trustees of the Russell Sage Foundation on November 15, 1951, it was apparently voted to give this institution a two year grant totaling \$47,600.00 for a proposed Study of Ward Patient Care in Psychiatric Hospitals. This grant is payable to the institution in eight quarterly installments. It was also agreed that a report of the results of this study will be prepared for publication by the Foundation. It has also been agreed that the institution will deposit with the Foundation by June 30, 1954 manuscripts reporting upon the above study. Any funds remaining after the completion of the project will revert to the Foundation. To the date of audit the first installment of \$5,950.00 had been received but no expenditures had as yet been made.

**Plumbing Improvements - Special:** It was noted that from special appropriation accounts #8017-02 and 7817-02 for Plumbing Improvements the amount of \$121,266.83 had been paid to the general contractor for his original contract and changes #1, #2, #3 and #4. It was further noted however, that additional payments totaling \$12,126.68 were paid from these appropriations for the services of a structural engineer.

#### WESTBOROUGH STATE HOSPITAL

REPORT No. 52-68

**Farm Records:** The previous audit report commented in great detail with regard to the condition of the 1949 farm report and stated in part as follows:

"In connection with checking this report to the financial records of the institution certain variances were noted; therefore it is recommended that subsequent farm reports when prepared, be reconciled with the institution's financial records in the Treasurer's office."

In connection with the current audit the 1950 and 1951 farm reports were examined and it was noted that the shortcomings found in the 1949 farm report were repeated in these two reports.

The variance between the farm reports and the financial records appear to have been progressively increased. The conditions are apparently due to the lack of familiarity with the farm accounting procedure on the part of the Institution Personnel.

In connection with the foregoing, adjustments totaling thousands of dollars which were made on the farm records and submitted to the Institution Treasurer's office for posting were not made in the general ledger of the Institution. Likewise, issues reported to the Treasurer's office were in certain instances not recorded. In 1951 production in excess of \$6,000.00 was not reported to the Treasurer's office by the farm office. Many other variances involving smaller amounts were also noted.

It was also noted that certain sales of hay and garden produce were entered in the production section of the individual crop sheet, with the result that they were included on the annual financial statement of the farm although they had already been included previously in production credited.

In view of the condition of the farm records as heretofore indicated it is recommended that the Comptroller's Bureau review the records and instruct the employees concerned in the proper procedures involved.

**Patients' Fund - Employees Handling Cash Not Bonded:** It was noted that a temporary junior clerk and typist employed in the Institution treasurer's office was not bonded. As this clerk handles a considerable amount of cash in connection with her duties, it is recommended that she be bonded.

**Patients' Fund - Overdrawn Accounts:** It was noted that there were several accounts included with the patients' accounts which were overdrawn. These accounts also appear in the same category at the time of the previous audit. The accounts represent certain discharged and deceased patients and it is understood that the treasurer has made an effort to collect the amounts from the persons responsible. It is recommended that the Comptroller's Bureau review this matter and prescribe the procedure to be used to dispose of these balances.

**Patients' Fund - Funds of Deceased Patients:** It was noted that there were a considerable number of accounts in this category which had not been forwarded to the Department of Mental Health. Certain of these accounts were several years old. It is therefore recommended that all such accounts be forwarded to the Department of Mental Health as required by Section 3 of Chapter 123 and Section 30 of Chapter 117 of the Tercentenary Edition of the General Laws.

**Patients' Fund - Funds of Discharged and Escaped Patients:** It was noted that there were certain accounts belonging to patients who had been discharged or had escaped more than seven years prior to the date of this audit. It is therefore recommended that these accounts be forwarded to the Department of Mental Health as is required by Section 39A of Chapter 123 of the Tercentenary Edition of the General Laws, as amended.

**Canteen Accounts - Overage in Inventory:** The comparison of the physical inventory with the established book inventory on date of audit indicated an overage of \$193.27. This figure when compared with sales of \$24,072.21 for the audit period represents an overage of .8%.

**Patients' Fund - Savings Bank Accounts:** It also was noted that there were four savings bank accounts with balances totaling \$242.49 belonging to former patients of this Institution who had died. The dates of their deaths were indicated as from 1947 to 1951. It is therefore recommended that these bank accounts be forwarded to the Department of Mental Health or to the heirs of the deceased as indicated.

#### TEACHERS' RETIREMENT BOARD

REPORT No. 52-69

**Records - Microfilm:** The bookkeeping records relating to the teachers' deposits for the 1951 calendar year were microfilmed by the Board while the audit was in progress.

**Bookkeeping:** It was noted that a previous audit report's recommendation suggesting that a general ledger be maintained by the Board was not approved by the Comptroller's Bureau.

#### DEPARTMENT OF PUBLIC UTILITIES

REPORT No. 52-70

**Cash Book and Financial Statements:** The recommendation in the previous audit report with regard to the proper handling of the cash book and financial statements has been complied with.

#### BOARD OF BAR EXAMINERS

REPORT No. 52-73

**Excessive Accounts Payable for 1951 Fiscal Period:** It was suggested in the previous audit report that closer scrutiny be given unpaid expenses before they are recorded as Accounts Payable at the close of the fiscal period. This suggestion was, however, disregarded at the close of the 1951 fiscal period.

A review of the expenses charged to the various appropriation accounts for the 1951 fiscal period indicated that they were overstated in the amount of \$1,137.43 because of excessive Accounts Payable having been reported as of June 30, 1951. These items included the following:

<u>Account Name</u>	<u>Accounts Payable</u>	<u>Invoices Paid</u>	<u>Unexpended (Excess)</u>
Heat and Light	\$ 3 00	\$ 2 83	\$ 17
Travel and Automotive	35 00	27 18	7 82
Advertising and Printing	1,273 94	271 69	1,002 25



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Office and Administrative	\$ 105 51	\$ 43 32	\$ 62 19
Rentals	130 00	65 00	65 00
Totals	<u>\$1,547 45</u>	<u>\$410 02</u>	<u>\$1,137 43</u>

## DEPARTMENT OF CORRECTION

## GENERAL DEPARTMENT

REPORT No. 52-76

Prison Camps: Chapter 755 of the Acts of 1951 authorized the Commissioner of Correction to establish these camps. At the date of audit there was one camp being built at the Myles Standish State Forest at Plymouth. It is expected that this camp will be completed and occupied by May 1, 1952.

The general books are being kept by the senior bookkeeper in the office of the Department of Correction. These accounts were examined with the accounts of the department during this audit.

Parole Board - Assistance to Discharged Prisoners: The records of the Parole Board indicate that during the period covered by the audit \$420.31 was given to discharged prisoners as loans or gratuities. During the same period \$50.00 was repaid on loans.

## MEDFIELD STATE HOSPITAL

REPORT No. 52-77

Outstanding Checks: Payment should be stopped on the following checks which have been outstanding for a considerable time:

State	2 totaling	\$ 2 28
Patients	13 totaling	77 95
Canteen	6 totaling	36 35
Escrow	5 totaling	51 31

Their proceeds should be disposed of in accordance with existing practices.

General Bookkeeping: It was noted that the prescribed form of escrow retirement cards are not being used. It is suggested that a supply be obtained from the State Supply Room.

Maintenance Charges: The verification of this income was difficult because of the lack of a floor plan of the various buildings or accurate lists of rooms and apartments which are available for renting.

Funds of Discharged Patients: It was again noted that the number of accounts belonging to discharged patients has increased substantially. This can probably be attributed to the fact that when patients are discharged on days that the treasurer's office is not open, arrangements are not completed for the proper transfer of the funds concerned. It would seem that better coordination between the financial office and the medical sections will bring about a decrease in the number of these items.

Farm Report - 1951: It was noted that the farm products to Storeroom account in the general ledger did not agree with the corresponding account in the annual report by \$426.08. This was traced to improper distribution of the revised rates for milk and turnips.

It was also noted that 445,930 quarts of milk were produced at an average cost of .1184 cents per quart and that 31,533 11/12 dozen eggs were produced at an average cost of .4136 cents per dozen.

Attention is called to the fact that the swine project was discontinued during the 1950 year.

The reconciliation of farm costs between the farm report and the financial statements could not be accomplished. The present system of coding expenses does not extend to the farm records, so there are certain items which are not coded on the financial reports as farm expenses.

The various accounts in the farm report did not agree with the control accounts in the general ledger in the following instances:

	Control Account	Farm Report
Farm Production	\$90,370 17	\$90,920 55
Farm Products Used	89,034 37	90,452 94
Farm Products to Storeroom	59,811 86	60,237 94

## STATE TEACHERS COLLEGE AT NORTH ADAMS

REPORT No. 52-79

Accounts Receivable: A trial balance of the Accounts Receivable subsidiary ledger was drawn off as of March 24, 1952. It was again noted, however, that this ledger did not agree with the control account in the general ledger in the amount of \$32.55. As this condition was commented upon in three previous audit reports, it is again recommended that the necessary adjustments be made.

It was further noted that certain outstanding balances totaling debits of \$899.17, and credits of \$12.50 have been carried on the records since 1950. These items should be adjusted for the following reasons:

## Debits:

Adjusted fees charged to Veterans, Disallowed by Veterans Administration	\$599 17
Out-of-State fee charged in error to a resident of Massachusetts	225 00
Students left college within refund period	75 00
	<u>\$899 17</u>

## Credits:

Overpayment by student, refund not claimed	<u>\$12 50</u>
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Cash Shortage: During the course of the current audit, a check in the amount of \$687.51 was received from a bonding company apparently in full settlement and satisfaction for cash shortages at this college which occurred during the period from June 19, 1950 to April 16, 1951, as follows:

Income	\$523 01
Account Payable a/c Caps and Gowns	106 70
Personal Telephone Calls	29 80
Due President of College for Cash	
Deposited to Cover Shortages	28 00
	<u>\$687 51</u>

Income on Hand: On the date of audit, certain receipts on account of income for the 1951 fiscal year were still on hand. These items totalled \$36.15 and represented extension fees recorded in January 1951 and an amount remitted by the State Treasurer in December 1950 to cover cash shortages then supposedly existing. These items should be sent to the State Treasurer, forthwith.

## DEPARTMENT OF PUBLIC WELFARE

## GENERAL DEPARTMENT

REPORT No. 52-82

Old Age Assistance - State Share: For the fiscal year ending June 30, 1952 an appropriation of \$36,890,000.00 was granted. A statement showing the status of this appropriation on February 29, 1952 follows:

OLD AGE ASSISTANCE - STATE APPROPRIATION

July 1, 1951 to February 29, 1952

Appropriation	\$36,890,000 00
Allotments	31,131,181 07
Balance Unallotted February 29, 1952	<u>\$5,758,818 93</u>

Allotments

July 31, 1951

\$11,967,588 99



August 31, 1951	\$ 4,767,323 14
September 29, 1951	2,734,589 90
October 31, 1951	3,456,577 84
November 30, 1951	3,594,579 50
December 31, 1951	2,240,060 08
January 31, 1952	2,370,461 62
	<u>\$31,131,181 07</u>

Paid To	Expenditures		
	Paid During Month of	Amount Paid	Period Covered by Payment
Overseers of Public Welfare, 43 Hawkins St., Boston	July 1951	\$ 850,000 00	Feb. and Mar. 1951
Various Cities and Towns Except Boston	July 1951	11,117,588 99	Dec. 1950, Jan., Feb., Mar. and Apr. 1951
Various Cities and Towns Except Boston	July 1951	2,158,059 32	May 1951
Overseers of Public Welfare, 43 Hawkins St., Boston	Aug. 1951	277,523 95	Apr. 1951
Overseers of Public Welfare, 43 Hawkins St., Boston	Aug. 1951	68,018 01	Jan. 1950 (Adjustments)
Welfare Districts	Aug. 1951	7,182 21	Second Quarter of Calendar Year 1951
Various Cities and Towns Except Boston	Aug. 1951	2,256,539 65	June 1951
Various Cities and Towns Except Boston	Sept. 1951	2,154,029 67	July 1951
Various Cities and Towns Except Boston	Sept. 1951	450,000 00	May 1951
Tewksbury Hospital	Sept. 1951	37,903 98	July 3, through Oct. 31, 1951
Overseers of Public Welfare, 43 Hawkins St., Boston	Oct. 1951	350,000 00	Mar. through July 1950
Overseers of Public Welfare, 43 Hawkins St., Boston	Oct. 1951	850,000 00	Aug. 1950 through May 1951
Various Cities and Towns Except Boston	Oct. 1951	2,170,823 04	Aug. 1951
Overseers of Public Welfare, 43 Hawkins St., Boston	Oct. 1951	85,754 80	Feb. 1950 (Adjustments)
Tewksbury State Hospital	Oct. 1951	10,077 04	Nov. 1951
District Treasurer, Town Hall, Richmond	Oct. 1951	560 23	Second Quarter of 1951
Various Cities and Towns Except Boston	Nov. 1951	2,164,894 85	Sept. 1951
Tewksbury State Hospital	Nov. 1951	9,991 03	Dec. 1951
Welfare Districts	Nov. 1951	4,684 65	Third Quarter of Cal- endar Year 1951
Various Cities and Towns Except Boston	Dec. 1951	2,240,060 08	Oct. 1951
Overseers of Public Welfare, 43 Hawkins St., Boston	Dec. 1951	1,425,000 00	June, July and Aug., 1951
Tewksbury State Hospital	Dec. 1951	10,190 06	Jan. 1952
Various Cities and Towns Except Boston	Jan. 1952	2,370,461 62	Nov. 1951

Tewksbury State Hospital	Feb. 1952	\$ 18,738 07	Feb. and Mar. 1952
Refunds of Expenditures		(40 00)	
Total Expenditures		<u>\$31,088,041 25</u>	
Allotment Balance, February 29, 1952		<u>\$43,139 82</u>	

It was noted that the total unexpended balance in this appropriation on February 29, 1952 was \$5,801,958.75. The City of Boston on February 29, 1952 has been paid on an estimated basis through August 1951 and the bills from the City have been audited only through March 1950. The other cities and towns have been paid through November 1951. It would appear from the foregoing that by June 30, 1952 there will be a potential liability of approximately \$13,000,000. At present such liabilities are not recorded in the general ledger of the Department and it is suggested that the Comptroller's Bureau be requested to provide for the recording of these liabilities in the Department general ledger so that the true financial status will be shown.

In this connection it was noted that a letter dated January 31, 1951 from the Comptroller's Bureau to the Department of Public Welfare included the following paragraph:

"Old Age Assistance - State Share: The Auditor suggested that the Comptroller be requested to provide for the recording in the general ledger of audited and approved liabilities. In accordance with the provisions of Chapter 29, Section 26 of the General Laws, as amended, an expenditure in excess of an appropriation cannot impose legal liability upon the Commonwealth."

Said Section 26, as amended by Section 1 of Chapter 636 of the Acts of 1947, reads as follows:

"Section 1. Chapter 29 of the General Laws is hereby amended by striking out section 26, as most recently amended by section 13 of chapter 242 of the acts of 1945, and inserting in place thereof the following section:- Section 26. Expenses of offices and departments for compensation of officers, members and employees and for other purposes shall not exceed the appropriations made therefor by the general court or the allotments made therefor by the governor. No obligation incurred by any officer or servant of the commonwealth for any purpose in excess of the appropriation or allotment for such purpose for the office, department or institution which he represents, shall impose any liability upon the commonwealth."

With respect to the foregoing, it certainly does not appear that said Section 26 prohibits including in the general ledger accounts showing these liabilities and certainly to omit this information will result in a distorted picture of the financial condition of the Commonwealth.

Aid to Dependent Children - State Share: For the fiscal year ending June 30, 1952 an appropriation of \$6,214,596.37 was granted. A statement showing the status of this appropriation on February 29, 1952 follows:

#### AID TO DEPENDENT CHILDREN - STATE SHARE

July 1, 1951 to February 29, 1952

Appropriation	\$6,214,596 37
Allotments	<u>6,115,826 94</u>
Appropriation Balance, February 29, 1952	<u>\$98,769 43</u>

#### Allotments

July 31, 1951	\$4,905,900 84
July 31, 1951	64,596 37
August 31, 1951	814,534 16
October 31, 1951	330,074 61
November 30, 1951	<u>720 96</u>
	<u>\$4,115,826 94</u>



	<u>Expenditures</u>		<u>Period Covered by Payment</u>
	<u>Paid To</u>	<u>Paid During Month of</u>	<u>Amount Paid</u>
Boston		July 1951	\$1,617,208 44
Various Cities and Towns Except Boston		July 1951	3,353,288 77
Boston		Aug. 1951	160,000 00
Various Cities and Towns Except Boston		Aug. 1951	328,416 08
Various Cities and Towns Except Boston		Aug. 1951	325,255 10
Welfare Districts		Aug. 1951	862 98
Boston		Oct. 1951	330,000 00
Richmond		Oct. 1951	74 61
Welfare Districts		Nov. 1951	720 96
			<u>\$6,115,826 94</u>

It was noted that the total unexpended balance in this appropriation on February 29, 1952 was \$98,769.43. On February 29, 1952 the City of Boston and the other cities and towns have been paid through June 1951. It would appear from the foregoing that by June 30, 1952 there will be a potential liability of approximately \$5,000,000. As stated earlier in this report, such liabilities are not presently being recorded in the Department general ledger and it is suggested that the Comptroller's Bureau also be requested to provide for setting them up on the accounts.

Old Age Assistance and Aid to Dependent Children - State Share - Payments to Cities and Towns: During the fiscal year ended June 30, 1951 disbursements of \$31,052,523.95 were made to cities and towns as reimbursements for state share of payments by local welfare agencies for "Old Age Assistance". During the same period \$5,798,841.93 was disbursed to cities and towns as reimbursements for state share of expenditures for "Aid to Dependent Children". The disbursements by the Department were for various periods up to December 1, 1950. In this connection, Schedules No. XX and XXI appended to this report show the payments made during the fiscal year, together with the periods covered by the respective payments.

Assistance for Totally Disabled Persons: This assistance was authorized by Chapter 741 of the Acts of 1951, effective November 1, 1951 and provides for local, state and federal participation.

Federal participation is available under Title XIV - Aid to Permanently and Totally Disabled as added by the Social Security Act Amendment of 1950.

To May 15, 1952, no Federal grants have been received.

The Massachusetts State Plan for Aid to Persons Permanently and Totally Disabled was submitted on December 28, 1951 to the Federal Security Agency, Boston, Massachusetts, but to May 15, 1952, no official written approval had been received from the Social Security Administration in Washington, but it was understood that the department had received oral assurance that it will be approved shortly. It is understood that when the plan is approved, Federal Funds will be available beginning with the quarter in which the plan was submitted.

For the fiscal year ending June 30, 1952, an appropriation (State) of \$1,500,000.00 was granted, of which \$184,800.00 has been allotted to cover cases at the Tewksbury State Hospital.

To May 15, 1952, no reimbursements to the cities and towns for the state share have been made, but it is understood that in the near future reimbursements will be made covering payments for the months of November and December 1951. In this connection the following totals of Assistance Rolls have been already submitted by the cities and towns to March 31, 1952:

November 1951	\$ 17,389 40
December 1951	186,354 90
January 1952	238,207 69
February 1952	277,525 58
March 1952 (estimated)	315,000 00
	<u>\$1,034,477 57</u>

It was also learned that the City of Boston has sent in its estimate of the Federal share for the month of December 1951 in the amount of \$7,987.75.

**Division of Child Guardianship - Accounts Receivable - Verification Notices Returned with Liability Denied:** The previous audit report stated that a verification notice sent to the City of Waltham was returned with liability denied. The previous audit report further stated that Waltham's denial was based on the City's interpretation of Section 2, Chapter 123 of the Tercentenary Edition of the General Laws and that it was understood that an interpretation of this section had been requested from the Attorney General.

Upon inquiry it was learned that to date of this audit, March 24, 1952, no opinion has yet been received from the Attorney General and the situation with respect to this claim remains the same.

**Reimbursements for Support of Children by Individuals:** In addition to the reimbursements by cities and towns for the support of certain children, the Department is also reimbursed by individuals, voluntarily or upon court order.

In the case of a child committed to the care of the Division by court order, the court may order a parent to pay a designated amount for the support of that child. These payments are made by the parent directly to the probation officer of the court which has jurisdiction. The probation officer remits the amount collected to the Division of Child Guardianship.

Referring to these reimbursements, the previous audit report stated:

"A test check was made of the commitments to the Department during the period covered by this audit. In this connection, it was noted that there were ten cases committed prior to December 31, 1950, with established settlements, and on which the bookkeeping section had apparently received no advice to start billing. The oldest of the ten cases noted was dated April 5, 1950."

It was noted that all the foregoing referred to cases were billed during the current audit period.

The previous audit report also stated:

"It is suggested that all districts, including Boston, forward settlement information immediately to the Accounts Section so that billings may be started promptly. It is suggested that a register be maintained, together with a current intake card file, from which information regarding settlements, etc. could be forwarded to the Accounts Section for billing, immediately upon the determination of the proper settlement."

It was understood that the suggested register has not been installed. However, the Accounts Section checks currently with the "intake card file" kept in the Research and Statistics Section of the Division of Child Guardianship.

**Storeroom - Division of Child Guardianship:** It was understood that this storeroom will be abolished in the near future and the clothing and furnishings which have been carried in the storeroom will be specifically purchased for each child.

**Wards' Wages - Division of Child Guardianship:** The practice of billing and collecting from employers of wards was discontinued on October 31, 1951. The Wards now handle their earnings themselves.

**Division of Child Guardianship - Funds of Wards - Whereabouts Unknown:** In accordance with Chapter 618 of the Acts of 1941 unclaimed funds of state wards seven years after becoming of age and who cannot be located should be transferred to the State Treasurer annually by November 30, of each year. There were no accounts transferred to the State Treasurer during this audit period. As of the date of the previous audit, there were ten



accounts totaling \$377.00 in this category and during the audit period, accounts of four wards who were located were paid. As of March 24, 1952, however, there were still accounts belonging to twenty wards, the present whereabouts of whom were unknown, with balances totaling \$809.96 which came within this category.

**Trustee Accounts - Division of Child Guardianship:** At the date of the previous audit, January 25, 1951, there were included in the control total of the "Trustee Accounts" two accounts which were in the name of the "Christmas Fund" and the "Vacation Fund". These funds were handled and disbursements made at the discretion of the supervisors and visitors and were not confined to Christmas or Vacation purposes.

**Christmas Fund:** It was noted that this fund was abolished on November 30, 1951 and its balance of \$186.67 was distributed to the district offices in proportion to the number of the children in each district.

The balance in the vacation fund on March 24, 1952 was \$770.76.

The previous audit report stated:

"It was noted that certain witness fees collected by Department employees were credited to one of the funds. These witness fees should be turned over to the State Treasurer as Department income in conformance with instructions from the Commission on Administration and Finance."

It was noted that the witness fees in the account at the time were withdrawn and were paid to the State Treasurer. Since that time all such fees have likewise been paid to the State Treasurer.

**Division of Aid and Relief - Income Transferred to Institutions:** In this connection the previous audit report stated:

"It is suggested that all income received by the Division for credit to the State Farm and to the Infirmary at Tewksbury be transferred directly to the State Treasurer, and a copy of the receipts voucher only be sent to the institutions concerned. At present, income of this kind is transferred by the institutions to the State Treasurer."

It was noted that beginning with July 11, 1951, this income was deposited in the First National Bank of Boston in the name of the State Treasurer and a copy of the receipts voucher is sent to the Tewksbury State Hospital.

It was noted that there appears to be a considerable delay between the time the remittance check is received in the Department and its date of entry on the official cash book.

It is recommended that the Comptroller's Bureau be requested to review the entire system and provide routines which may be readily audited.

**Accounts Receivable - Suspense Accounts:** The previous audit report stated:

"Accounts with balances referred to the Attorney General for collection should be set up in a Suspense Accounts Receivable control account. This is in accordance with the Comptroller's Bureau Accounting Manual. In this connection it was noted that such a control account has been set up in the general ledger of the Division of Aid and Relief, but had not yet been set up in the general ledger of the Division of Child Guardianship."

It was noted that there is now a suspense account in the general ledger for the Division of Child Guardianship accounts receivable.

**Infant Boarding Home Licenses:** The previous audit report stated:

"It is suggested in order to effect a better control of this income, that the several District Offices send monthly reports to the Division Office in Boston of license forms on hand, licenses issued during the month, licenses voided, together with a list of pending licenses as of the last day of the month."

It was noted that this suggestion has been adopted.

Rentals: An analysis of the annual property rentals listed as being paid by this Department, include the following:

600 Washington Street, Boston	\$70,000 00
107 Front Street, Worcester	7,000 00
232 Main Street, Brockton	4,680 00
46 Amesbury Street, Lawrence	4,500 00
196 Washington Street, Springfield	2,620 00
105 Williams Street, New Bedford	2,544 25
467 North Street, Pittsfield	1,800 00

It was also noted that individual monthly garage rentals for the storage of automobiles used by Department employees varied between \$5.00 and \$20.00.

#### STATE TEACHERS COLLEGE AT SALEM

REPORT No. 52-83

Amanda Parsons Fund: The previous audit report stated in this regard:

"The principal of this fund is held by the State Treasurer in cash (\$150.00). Inasmuch as the principal cannot be expended, it is suggested that this fund be invested so that the income, however small, may be available."

As this suggestion was not complied with, it is again suggested that the principal be invested so that income may be accumulated.

Restaurant Account: It was noted that restaurant receipts for the period March 24, 25, 26, 27, 1952 were reported stolen and all known facts were turned over to the local police authorities who are making an investigation.

Book Store and Cooperative Society: The accounts of these two activities were not examined in connection with this examination.

#### BOSTON STATE HOSPITAL

REPORT No. 52-84

Duplicate Payments - Services - Non-Employees: It was noted that in the Appropriation Account #1711-00-03 - Services - Non-Employees - charges totaling \$353.00 for medical services had been approved by institution officials and were subsequently paid by the State Treasurer. These charges had appeared on previous invoices and had been at that time approved by institution officials for payment. It is recommended that the necessary steps be taken to recover this amount. It is further suggested that an adequate system of internal control be arranged so that the possibility of further duplicate payments will be precluded.

Prior Year Refund: It was noted that a patient discharged from the hospital March 30, 1951 had left a balance of \$70.00 in her account to reimburse the Commonwealth for the estimated cost of a surgical operation performed on March 14, 1951. In checking the matter it was found that cost of the operation which totaled \$55.00 and was paid from the Appropriation for Services - Non-Employees in April 1951 had never been reimbursed. This situation was discussed with hospital authorities and on May 12, 1952 a reimbursement in the aforementioned sum was turned over to the State Treasurer in the form of a Prior Year's Refund.

Multiple Sclerosis Research Fund: In connection with the examination of the expenditures from this Fund, it was noted that one physician was overpaid \$333.33 and another underpaid \$333.33 as the result of clerical errors made during the months of May, June, July and August of 1951.

It was noted that several attempts were made to recover the overpayment. The matter was finally turned over to the Attorney General for collection on February 26, 1952. It is understood that any money recovered will be turned over to the underpaid doctor who apparently had not yet filed a claim for it.

Briggs Clinic Fees: It was noted that fees totaling \$1,502.50 had been received from this source during this current audit period. It was, however, virtually impossible to audit the cash book because of the absence of proper accounting records. A review of the Clinic accounting system indicated that the cash book was the only accounting record. The



records further indicated that a total of 1,216 treatments were given to patients during the three-month period ended March 31, 1952 and fees recorded in the cash book totaled only \$438.75. If the Clinic kept a detailed daily record of the type and value of treatments given to fee patients, it would be possible to verify the recorded income. In this connection it is suggested that serially numbered treatment slips be printed in duplicate showing the date, fee, type of treatment and name of patient. The duplicate copy of the treatment slip would serve as the basis of the entry in the Clinic cash book and also provide a daily income record. The original, of course, would be given to the patient as a receipt for his records, etc.

**Meal Tickets:** The reconciliation of meal tickets issued with the income from meal tickets indicated that serially numbered tickets having an apparent revenue value of \$15,243.00 had been issued free of charge to Student Nurses, Social Service Students, Medical Students and Volunteer Workers as authorized by Section 7 of Chapter 7 of the Tercentenary Edition of the General Laws. The practice of issuing the revenue-producing type tickets for free issue is obviously contrary to good accounting practice. It, therefore, recommended that revenue-producing meal tickets have their cash values printed thereon. The tickets that are issued free should have some such designation clearly printed on each ticket. To further facilitate the accounting for each class of tickets, it is also suggested that different colors and separate sets of serial numbers be provided.

**Rents - Non-Employees:** It was noted that rents had been received from occupants of state-owned property who were friends and guests of hospital employees. These non-employees occupied rooms for a total of 33 days during the audit period and paid rents at the established employee rates of 33 to 35 cents per day without the prior approval of the Department of Mental Health as is required by Section 7 of Chapter 7 of the General Laws.

It is suggested that the necessary approvals be obtained for any non-employees who plan to occupy rooms.

**Inventory Adjustments:** It was noted that a shortage adjustment totaling \$1,768.20 for bituminous coal applicable to the period May 1, 1948 through February 28, 1951 was recorded on the books as of March 31, 1951. It is suggested that adjustments of this nature should be made on a more current basis. To allow a period of almost three years to elapse without properly adjusting the records is certainly not in the best interests of the Commonwealth - nor is it good accounting procedure.

**Rehabilitation Pilot Study Fund:** On January 11, 1952, a grant of \$9,975.00 was received from the National Institute of Mental Health, which is an agency of the United States Public Health Service, for a proposed pilot study of the rehabilitation and rehabilitation personnel in a public mental hospital. This original grant was given for the period January 1, 1952 through June 30, 1952. Additional commitments totaling \$36,520.00 for the period July 1, 1952 through June 30, 1953 and \$15,000.00 for the period July 1, 1953 through December 31, 1953 have also been provided to the hospital by this agency. To obtain these commitments this institution will be required to submit separate applications for each of the subsequent periods concerned. The initial grant and other commitments which, it is understood, will be handled as continuation grants are to be expended for only those particular items coming within the limitations listed in the budget accompanying the respective grants.

**Federal Grants - Public Health Service:** On October 5, 1951 a grant of \$2,000.00 was received from the United States Public Health Service to pay the salary of a trainee in Clinical Psychology for the period November 1, 1951 to October 31, 1952. The expenditures from this fund amounted to \$833.30, leaving an unexpended balance of \$1,166.70 as of March 31, 1951.

**Suspended Pay Roll Vouchers:** The previous audit report commented on a disallowed pay roll voucher of \$17.01 which had been outstanding since September 1946. It was noted that this amount was recovered in July 1951 and was turned over to the State Treasurer on July 31, 1951.

## MASSACHUSETTS AERONAUTICS COMMISSION

REPORT No. 52-85

**Reimbursement to Cities and Towns for Airport Construction Projects:** During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal Government,

the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50% Federal, 25% State and 25% Local respectively.

All contracts awarded under this program are approved by the Massachusetts Aeronautics Commission. Under provisions of appropriating acts for the 1950 and subsequent fiscal years the approval of contracts by the Massachusetts Public Buildings Commission is no longer required. The progress of the work is checked by engineers of the Massachusetts Aeronautics Commission.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement from the Commonwealth of 25% of construction costs which is the maximum reimbursement allowed by General Laws, Chapter 90, Section 39F.

Checks are sent by the Federal Government payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned.

The Commission deposits these checks in a separate bank account and almost immediately draws checks on this account payable to the several municipal airports where work is being performed under the program.

Apparently the amounts awarded by the Federal Government under this program are not controlled by the Commonwealth.

The following schedule indicates the amounts of Federal and State aid paid to cities and towns for airport construction from June 6, 1951 to April 4, 1952:

<u>City, Town or County</u>	<u>State Aid</u>	<u>Federal Aid</u>	<u>Total</u>
Chatham	-	\$ 2,438 47	\$ 2,438 47
County of Dukes County (Martha's Vineyard)	\$ 886 25	15,485 75	16,372 00
Fall River	-	22,113 28	22,113 28
Fitchburg	4,648 34	7,649 87	12,298 21
Gardner	200 59	401 17	601 76
Nantucket	11,717 13	48,571 01	60,288 14
New Bedford	86,931 14	157,325 17	244,256 31
North Adams	15,603 60	9,265 76	24,869 36
Worcester	146,020 23	277,656 20	423,676 43
	<u>\$266,007 28</u>	<u>\$540,906 68</u>	<u>\$806,913 96</u>

Registration of Federal Certificates by Resident Airmen Owners and Operators: Section 49 of Chapter 90 of the General Laws provides that all resident airmen, owners and operators of all aircraft, shall register the Federal certificates of said airmen and of said aircraft with the Commission. It was noted that no fees are charged by the Commission for such registrations.

#### DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

##### GENERAL DEPARTMENT

REPORT No. 52-86

##### Division of Civil Service

Professional and Consulting Services: It was noted that the sum of \$35,528.02 was expended during the 1951 fiscal year for professional and consulting services. These records were not examined because of the objection of the Director to submitting them for examination. His objection centered on the confidential nature of the services performed.

Division Income: In reconciling the Divisional control account with the records of the Comptroller's Bureau it was noted that a deposit of \$1,350.00 and two bad checks totaling \$21.00 had not been reported to the Division of Registration by the several boards.

Excess of Expenditures over Receipts: It was noted that the Board of Hairdressers showed an excess of expenditures over receipts for the 1951 year.

The Acts of 1935, Chapter 428 (Hairdressers) states in part:

"....shall not be in excess of the receipts for registration and from other sources received by the State Treasurer from the board."



## BOARD OF REGISTRATION IN VETERINARY MEDICINE

REPORT No. 52-87

Renewal Fees: In this connection Section 1 of Chapter 433 of the Acts of 1951 states as follows:

"Every registered veterinarian shall, annually before March first, pay to the board a license fee of five dollars, in default of which the board may revoke his license and his authority to practice veterinary medicine thereunder, after a hearing as provided by section sixty-one; but the payment of said fee at or before the time of hearing, with such additional sum, not exceeding ten dollars, as may be fixed by the board, shall remove the default."

It was noted that despite the apparently mandatory provisions of the statute as of March 31, 1952 no penalties had been charged for delinquent payments, which totaled \$90.00 and represented 18 renewal fees actually received subsequent to March 1, 1952.

## PONDVILLE STATE HOSPITAL

REPORT No. 52-88

Maintenance Charges: The previous audit report stated as follows:

"A great deal of difficulty was encountered in auditing this type of income at this institution because of the lack of sufficient original information. The applications for pay roll deductions, which are signed by the employees, were listed and were test checked to one month's pay roll. In this connection it is recommended that a card file of all rooms or houses available for rent be installed, each card to include the following information:

Building or room number  
Rental price  
Name of occupant  
Dates of occupancy

"With this information available, an audit of this income will be facilitated."

It was noted that during the current audit period occupants' cards were supplied by the Comptroller's Bureau for aforementioned purpose. However, a great deal of difficulty was again encountered in reconciling the potential income from this source because of the following reasons:

- a) Failure to enter the exact date of occupancy or transfer on the cards
- b) Keeping these records on two different cards - key cards and room cards
- c) More than one person handling and recording entries on cards
- d) Entries on key cards not on room card
- e) Entries on key cards for occupants who did not occupy that particular room
- f) Too many transfers from one room to another (sometimes within a week) which did not show on the room card
- g) Keys issued before authorization and oath cards are signed

During the course of this audit several of the foregoing were brought to the attention of institution personnel with the result that some corrections have already been made.

Increase in Board Rates: Effective April 1, 1951, the charges for board of patients were increased from \$21.00 to \$35.00 per week for private cases and from \$40.00 to \$52.50 for cases billed to Cities and Towns. These charges were approved by the Public Health Council.

Key Deposit Fund: The previous audit report included the following comment:

"No cash book is kept of this account. Only a card file of keys out is kept, and when the keys are returned the refund is entered on the individual card."

On the date of the current audit there was cash totaling \$124.00 on hand representing the key deposits shown on the key cards, approximately 150 employees who had deposited 50 cents or more for their respective keys.

It is suggested that thought be given to the closing of this Key Deposit Fund and to a fee being charged for duplicates and extra keys. The proceeds would be turned in to the State Treasurer as income.

**Canteen Fund:** A cash register which was purchased by the canteen on December 22, 1937 for \$99.75 was sold to another State institution for \$1.00. The loss of \$98.75 plus the book balance of the Equipment account was charged out during this audit period.

**Refunds of Receipts:** It was noted in case of certain overpayments of Patients' Board that refunds are made directly by this institution. It is suggested that in the future Refunds of Receipt Vouchers be prepared and sent to the State Treasurer so that they may be handled through the facilities provided by the Commonwealth's fiscal system.

**Trust Fund for Cancer - Donations Account:** It was noted that the account of the Trust Fund for Cancer Donations was closed on January 2, 1952 and the balance was transferred to the State Treasurer where it was credited to an account - "Trust Fund for Cancer". It is understood that all future donations will be transferred to the State Treasurer on a regular receipts voucher.

**Pondville Hospital Trust Fund for Cancer:** It was noted that on June 11, 1951 a check in the amount of \$8,350.00 was received from the Treasurer of the United State Federal Security Agency, Public Health Service for Cancer Research. This check was transmitted to the State Treasurer.

**Bonded Employees:** It is suggested that all employees who handle cash and sign checks be bonded.

**Patients' Funds:** The funds of the patients at this institution are handled in the same manner as that of patients in certain general hospitals. Because of this, it is possible only to verify the amount showing on the face of the envelope. In order to account for all the money belonging to patients who have been in the hospital during the period covered by this audit, it would be necessary to go through the files of each patient who was treated during the audit period and list the record showing on the face of each envelope.

#### WESTFIELD STATE SANATORIUM

REPORT No. 52-89

**Employee Feeding:** The Rules and Regulations governing employees of the Commonwealth effective March 1, 1951, Part II, Employee Feeding at State Institutions reads as follows:

CM-8- "An employee may purchase meal tickets for use by non-employee members of his immediate family, only when said members are residing with the employee in non-housekeeping facilities upon institution property. Husband, wife, children and dependent parents shall, for the purposes of this regulation, be the only persons considered as members of the immediate family. No other non-employee relatives or friends of employees shall be eligible to eat in institution dining rooms."

It is suggested that the superintendent of this institution bring to the attention of the employees of this institution living in housekeeping facilities upon institution property the aforementioned regulation.

**Materials and Supplies:** A test inventory of the Materials and Supplies on April 29, 1952 indicated aggregate shortages of \$58.13 and overages of \$34.24. Adjustments made during the audit period totaled \$2,419.60 on total issues amounting to \$190,050.79. Of this total, \$1,139.27 represented overages and \$1,280.33, shortages. It was indicated that they were necessitated by clerical errors, spoilage and shrinkage.

#### BOARD OF DENTAL EXAMINERS

REPORT No. 52-90

**Annual Registration:** Chapter 112, Section 44 of the General Laws states that:



"Every registered dentist, when he begins practice, shall notify the Board of his address and shall pay a fee of two dollars before April 1st of each year."

The previous audit report noted that approximately 10% of the previous year's registrations had not been renewed, and recommended that the Board, by correspondence or otherwise, follow up on some methodical basis all those instances of registrations in the previous license year that did not register in the current year.

It was again noted in connection with this audit that approximately 10% of the previous year's registrations had not been renewed.

Bonds: It was again noted that the secretary of the board is not bonded. The senior clerk, who actually handles the office cash, is, however, bonded now by the blanket bond issued to the Division of Registration.

#### WRENTHAM STATE SCHOOL

REPORT No. 52-93

Maintenance Charges: A new card form (C B 13) was as of July 1, 1951 made part of the accounting control system and serves as a register for rooms, apartments and houses rented to employees. Because the records prior to that date were incomplete, no audit was possible of the income from that source received during the audit period before that date. The cards were analyzed for the period from July 1, 1951 to March 31, 1952 and it was noted that there was a variance of \$100.85 between the actual income and the potential income established through this analysis. This difference is probably due to inaccuracies in the dates of occupancy.

It was noted that the current rental rates are occasionally not indicated on the cards.

It is also suggested that consideration be given to place the accounting of this income with the institution housekeeper. This would obviously serve as a much better auditing control.

1951 Farm Report: It was noted that the sales indicated in the farm report exceeded comparable items appearing on the financial reports in the amount of \$610.68. It would appear that this variance was caused by not adjusting the billings to reflect farm prices established on February 16, 1951 for the 1951 farm year. In this same connection it was also noted that the farm ledger account was \$935.40 in excess of the general ledger control account, as follows:

Turnips	\$ 20 70
Milk	771 59
Eggs	127 20
Fowl	15 48
Chicken	43
	<u>\$935 40</u>

It was noted that the milk production for the year totaled 697,717.8 quarts, an average of 5,766.2 quarts per cow per year, at a cost of production of \$.0933 per quart.

The egg production totaled 38,198.57 dozen, an average of 215.3 eggs per hen per year, at a production cost of \$.50 per dozen.

The pork production totaled 53.356 pounds and was produced at a cost of \$.4029 per pound.

The following percentages of spoilage and shrinkage appear higher than those usually noted in comparable institutions:

Apples #1	71.2%
Beets	27.7
Onions	24.0
Winter squash	54.9
Turnips	37.0

Canteen: It was noted that a bill for candy, etc. totaling \$44.61 dated October 4, 1951 was not properly extended to the cash book selling price column. On January 31, 1952 a bill for merchandise totaling \$35.77 was incorrectly extended. It is advised that all bills should show the respective selling prices of each item to facilitate the computation of the inventory.

Bookkeeping - General: Attention is called to the fact that the prescribed form of Accounts Receivable ledger is not being used.

It was also noted that checks are signed in blank and are left in the valut until used. This is a dangerous practice and should be discontinued immediately.

Cash on Deposit: Attention is again called to the fact that the total institution funds on deposit in the National Bank of Wrentham are greatly out of proportion to the capital and surplus of the bank. Although the bank had a total capital and surplus of \$82,500.00 the following amounts belonging to and controlled by this institution are on deposit:

State Funds	\$137,225 33
Inmates' Funds	2,587 03
Bond Fund	1,055 25
Escrow Fund	1,300 29
Special-Gift Fund	1,164 98
Briggs Fund	2,003 90
Canteen Fund	1,847 76
	<hr/> \$147,184 54
In Individual Savings	
Accounts of Inmates	63,879 46
	<hr/> \$211,064 00

#### CIVIL DEFENSE AGENCY

REPORT No. 52-94

Advances: It was noted that advances were made to certain members of the organization for travel and in some instances no receipts were available. It is understood that in the future receipts will be obtained in all instances.

Civil Defense Agency Cities and Towns Trust Fund #6815-97-01-36: The cities and towns of the Commonwealth are eligible to have the Federal Government purchase defense equipment for them on a matching fund basis. As the Federal Government does not deal directly with cities and towns the Director of the Civil Defense Agency acts as agent for the cities and towns and as trustee for their funds. The balance in this account on April 8, 1952 was \$42,458.57.

Civilian Defense Trust Fund Account #6808: The balance in this account was expended in compliance with the trust provisions.

#### STATE AIRPORT MANAGEMENT BOARD

REPORT No. 52-95

Logan Airport - Suspense Accounts Receivable: It was noted that there were two accounts listed in the active accounts receivable that have been outstanding longer than one year. It is recommended that these accounts be transferred to a suspense accounts receivable account as is prescribed in the Comptroller's Bureau Accounting Manual.

Logan Airport - Parking Lot Concession: An agreement dated October 1, 1950 was negotiated with a concessionaire covering the motor vehicle parking areas. Article III entitled "Payments" of said agreement states in part as follows:

"Section 1. Basic and Percentage Fee: The Contractor shall pay fees to the Board at the following annual rate: An annual basic fee of Thirty Thousand Dollars (\$30,000.00), and an annual percentage fee of seventy per centum (70%) of the Contractor's gross receipts in excess of Forty-Six Thousand Dollars (\$46,000.00), but not over Sixty Thousand Dollars, (\$60,000.00), and sixty-five per centum of the Contractor's gross receipts in excess of Sixty Thousand Dollars (\$60,000.00), arising during any annual period from the first day of October to the last day of September during the effective date of this agreement.

The annual basic and percentage fee shall be paid in installments as follows: A basic fee of Seventy-Five Hundred Dollars (\$7,500.00) shall be prepaid on the first days of October, January, April and July of each year during the effective period of this agreement. A percentage fee of seventy per centum (70%) of the Contractor's gross receipts in excess of Forty-Six Thousand Dollars (\$46,000.00) accruing in any twelve (12) month period from the first day of October to the last day of September during the effective date of this agreement shall be paid on or



before the tenth day of the month following the respective twelve (12) month period in which such gross receipts have arisen."

The accounts receivable records, in this connection, were analyzed and the following was indicated for the audit period.

Basic Fees:

<u>Period Covered</u>	<u>Amount</u>	<u>Date Due</u>	<u>Date Paid</u>	<u>Unpaid</u>
Jan. 1, 1951 to Mar. 31, 1951	\$ 7,500 00	Jan. 1, 1951	Apr. 12, 1951	-
Apr. 1, 1951 to June 30, 1951	7,500 00	Apr. 1, 1951	July 10, 1951	-
July 1, 1951 to Sept. 30, 1951	7,500 00	July 1, 1951	Oct. 2, 1951	-
Oct. 1, 1951 to Dec. 31, 1951	7,500 00	Oct. 1, 1951	Dec. 10, 1951	-
Jan. 1, 1952 to Mar. 31, 1952	7,500 00	Jan. 1, 1952	-	\$ 7,500 00
Apr. 1, 1952 to June 30, 1952	7,500 00	Apr. 1, 1952	-	7,500 00

Percentage Fee:

Jan. 1, 1951 to Dec. 31, 1951	20,569 95	Jan. 10, 1952	-	20,569 95
Total Unpaid Charges, April 14, 1952				<u>\$35,569 95</u>

It will be noted that no basic fee was charged for the first quarter from October 1, 1950 to December 31, 1950. Attention is called to the fact that at a meeting of the Board held on December 18, 1950, it was voted to activate this agreement on January 1, 1951 and to accept only 50% of the Contractor's gross receipts in lieu of the basic fee for the period October 1, 1950 to December 31, 1950. In this connection it was noted that the gross receipts during this period totaled \$8,706.07 and that the Board properly received its 50% or \$4,353.04.

In further connection with the foregoing items, it will be noted that despite the fact that the contract specifically states that the contractor shall prepay the quarterly basic fee, in no instance has this been followed. As a matter of fact for the first three quarters of 1951 the fees were paid after the close of the respective quarters, and the fees for the first two quarters of 1952 were both overdue as of the date of audit.

The agreement also clearly indicates that the percentage fee shall be paid on or before the tenth day of the month following the respective twelve month period concerned. This fee which was due as of January 10, 1952, also was unpaid as of the date of audit.

There is no question that the administrative authorities have been most lenient with respect to the collection of the foregoing items which now total in excess of \$35,000.00.

Inasmuch as the non-payment of these items probably has voided the agreement in effect, it is urged that the entire matter be turned over to the Attorney General for collection, disposition, etc.

Signed Statements by Contractor: Attention is called to the fact that in accordance with the terms of its agreement, the aforementioned contractor or his accountant should submit sworn monthly statements of gross receipts and an annual statement of gross receipts from a Certified Public Accountant. Inasmuch as no such records were available in connection with this examination it is suggested that steps be immediately taken to obtain them for the files.

Logan Airport - Lease of Temporary Terminal Building: It was noted that an agreement dated November 15, 1950 and amended December 1, 1951 was negotiated with a tenant for the lease of the Temporary Terminal Building. In this connection, Article II "Method of Payment" states in part as follows:

"Payment of rental of said temporary terminal building shall be due quarterly in advance, and shall be paid within ten (10) days after receipt of bill. The first quarterly payment of forty-five hundred dollars (\$4,500.00) is to be made on the

first day of December 1951, and subsequent quarterly payments on the first day of March 1952, June 1952, and September 1952."

The records of the State Airport Management Business Office indicated the following unpaid charges for this account as of the date of audit:

October 1, 1951 to November 30, 1951 (Old Agreement)	\$ 4,166 67
December 1, 1951 to February 29, 1952	4,500 00
March 1, 1952 to May 31, 1952	4,500 00
Balance	<u>\$13,166 67</u>

It is suggested that the Board immediately pursue the necessary steps to enforce the collection of the foregoing items.

It was further noted that this contractor also owes the Board for the following:

Tie Down and Field Storage Fees	\$ 323 52
Gas and Oil Charges	808 80
	<u>\$1,132 32</u>

It is understood that these charges which were incurred during 1950 have not been paid because of a disagreement over the liability for these items. It is therefore suggested that the matter be turned over to the Attorney General for disposition.

Cash Receipts not Recorded in Cash Book or General Ledger: It was noted that certain items of Prior Year Refunds and Witness Fees were neither recorded in the cash book nor the general ledger. It is recommended that all cash receipts be recorded in the available folios in compliance with instructions in the Comptroller's Accounting Manual.

Theft of Items from Storeroom: It was noted that adjustments were passed through the materials and supplies accounts totaling \$332.81 representing the value of truck tires and fuses ostensibly stolen from the storeroom in two separate breaks which occurred in June 1951 and December 1951. It was also learned that other noninventory items of minor value also disappeared in connection with these episodes.

Since these thefts, it is understood, additional security precautions have been instituted on the premises.

Materials and Supplies Inventory: A complete inventory of materials and supplies on hand was taken on April 14, 1952 and compared with control balances in the Stock Ledger, with the following results:

	No. of Items	Value
Inventory per Stock Ledger (Includes Accounts Payable)	320	\$25,959 95
Add:		
Overages per Physical Count	38	2,362 52
		<u>\$28,322 47</u>
Less:		
Shortages per Physical Count	85	1,484 62
Physical Inventory		<u>\$26,837 85</u>

It would seem that total variances in 123 items totaling \$3,847.14 in relation to an inventory of 320 items totaling only \$26,837.85 is exorbitant. This is particularly difficult to understand when it is understood that an inventory was taken by employees of the Board on March 31, 1952, only a few weeks before this date, at which time adjustments were made supposedly bringing book balances into agreement with actual physical inventories. It is needless to state, of course, that positive and immediate steps should be taken to correct the situation, otherwise the ledger accounts which are presently maintained will have absolutely no practical value.

In addition to the regular inventory items controlled by stock ledger accounts, it was noted that there is also stored in the same storeroom like or comparable items which have



been charged to maintenance expenses or construction costs. Items of this nature should either be completely segregated or they should be brought back to the stock ledger where they may be more adequately controlled. The present arrangement is most confusing and should be discontinued as soon as possible.

**Logan Airport - Vending Machines:** Attention is called to the fact that as of the date of audit there was in operation at the Logan Airport 331 various vending and coin operated machines, including parking meters, turnstiles, telephones, etc. During the period covered by this audit the commissions received were as follows:

Telephone Pay Stations	\$ 7,133 92
Other	33,214 00
	<u>\$40,347 92</u>

In connection with the foregoing it is also mentioned that the foregoing are owned and serviced by 14 separate organizations selling 17 different products or services. In addition the Airport itself owns and operates 100 machines selling 3 different products and services.

Written contracts with the companies operating the foregoing machines have been executed in all but three cases, of which two have been in operation since April 1951. In these instances, it was noted that one of the companies concerned was given temporary authority at that time to install one soft drink machine in the "Temporary Terminal Building." The other concern was also given temporary permission at about that time to install in the same building one candy and one cigarette machine. Since that time, and with no apparent further permission, these two companies have installed and are operating 21 soft drink, 6 candy and 1 cigarette vending machines in 21 various locations on Airport property.

The third instance concerned a continuation of the right to operate of a former concessionaire involving 10 machines. This lease which apparently became effective on the withdrawal of the former concern on February 6, 1952, had apparently grossed \$505.70 to the date of audit. To date of audit, however, the usual 10% commission had not yet been paid to the Airport.

In view of the foregoing, it is suggested that the entire vending machine operation be made the subject of a survey or study by the Board. Inasmuch as the airport has now more or less established itself as a permanent enterprise it is quite possible that many of these machines can be eliminated, etc. It is also suggested that serious considerations be given at this time to the possibility of allowing these installations only after competitive bidding - this certainly being in the interests of better business practice.

**Hanscom Airport - Release of Certain Airport Land and Buildings to United States Air Force:** It was noted that on February 25, 1952 an agreement was negotiated leasing a certain part, and also transferring by deed another part of that Airport to the United States Air Force. This agreement was submitted to the Attorney General for approval. Another agreement providing that the United States Air Force agrees to relocate, move and construct facilities and utilities thereto in buildings all now occupied by the Commonwealth and its tenants without cost to the Commonwealth was also negotiated at that time.

It was further noted that certain employees of the Commonwealth who were working at that Airport at the time of this agreement becoming effective were being processed for employment as civilians by the United States Air Force.

#### STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT No. 52-96

**Inability to Complete Audit of Accounts:** Visits have been made to this college during the past three fiscal years for the purpose of making the required and regular examination of the accounts in accordance with statute on the following dates:

May 1, 1950  
May 14, 1951  
April 10, 1952

The reports submitted at the time of the visits made in 1950 and 1951, have each indicated in great detail those items which are normally performed in audits of this nature which were impossible of completion because the records were not currently or sufficiently maintained. They also indicated that essentially the causes for the shortcomings stemmed

from personnel changes which were allowed without consideration for the needs of this particular college.

In this connection the previous audit report further stated:

"It is, therefore, emphasized that the present situation, which has forced curtailment of two successive audits, should be immediately corrected by cooperation from the responsible officials within the Department of Education."

In spite of the foregoing, it was again noted that the situation of the past two years was again applicable and no regular bookkeeper is or has been employed since the occasion of the previous visit. Consequently, the accounts could not be properly examined because of the fact that current records were not available.

It was learned that representatives of the Comptroller's Bureau had visited this college some months previously, at which time the accounts and records were prepared for closing as of June 30, 1951.

Inasmuch as this matter has not been corrected after the repeated admonishments, it is now respectfully suggested that the Commission on Administration and Finance exercise whatever powers it considers are proper in matters of this nature. It is difficult to understand why a college of this type cannot at this time engage the services of personnel who are capable of performing the really simple necessary bookkeeping functions in a satisfactory manner.

It cannot be emphasized too strongly that because no audit has been completed for the past three years, there has been no factual verification of the propriety of the financial transactions at this college. The possible implications are, of course, quite obvious and should be considered in relation to the lack of cooperation shown in this matter to date.

#### RUTLAND STATE SANATORIUM

REPORT No. 52-97

Board Charges: In compliance with the provisions of Chapter 562 of the Acts of 1951 which states that treatment shall be provided without cost to all tuberculosis patients admitted to State Sanatoria, no charges were made on the Board ledgers of the Institution beginning January 1, 1952, with the exception of those stipulated districts having contracts to provide treatment of tuberculosis patients from their districts. The districts involved are Hampden County, with the exception of the City of Springfield, and the Tuberculosis Hospital District of Chelsea, Revere and Winthrop.

This legislation naturally had the effect of reducing substantially the income for board and treatment at the Institution since many patients are admitted from cities and towns other than those heretofore indicated.

In this connection the following memorandum concerning the repeal of the aforementioned statute was received from the Director of the Division of Tuberculosis and Sanatoria of the Department of Public Health, while this examination was in progress:

#### "MEMORANDUM

To: The Superintendents

Subject: Tuberculosis Care Law

From: Dr. Pope

Date April 30, 1952

CHAPTER 270, ACTS OF 1952, is made retroactive to January 1, 1952 and repeals all the provisions of Chapter 562 of the Acts of 1951 relative to the care and treatment of patients with tuberculosis.

For all practical purposes this repeal Act means that all of the legal provisions that were in effect prior to the first of this year are considered as having remained in effect uninterruptedly.

It will be necessary for your business office to bill the several cities and towns whose patients were or are being treated at your institution since January 1, 1952 at the same rates that were in existence prior to January 1, 1952."

#### BOARD OF REGISTRATION IN EMBALMING AND FUNERAL DIRECTING

REPORT No. 52-98

Examination Fees: It was recommended in two previous audit reports that a duplicate copy of a serially numbered receipt form be given to each person paying an examination



fee. At present, receipts are still given only to those persons paying the examination fee in currency in the office. It is again recommended that a receipt be given to each person paying an examination fee.

**Fidelity Bond:** It was noted that the secretary of the board is now bonded, in conformance with a recommendation in the previous audit report.

**Apprentice Registrations:** It was noted that there were 7 applications and fees totaling \$11.00 which were received prior to January 1, 1950. These should be disposed of as it now appears doubtful that the individuals concerned will ever appear for their respective examinations.

**Embalmers Re-Examinations:** It was also noted that there were 3 applications and fees in the aggregate amount of \$15.00 on hand, which were received prior to January 1, 1948. As it also appears doubtful that these will ever take their re-examinations it is recommended that these fees be disposed of.

#### NEW BEDFORD TEXTILE INSTITUTE

REPORT No. 52-99

**Tuition:** Because of the fact that there is both a day and an evening division at this Institute, it is quite impossible to compute the exact per capita cost of the day division. Inasmuch as it is understood that per capita cost of "Day Students" is substantially more than \$400.00 a year, it is suggested that consideration be given to increasing the annual tuition charge of non-resident and foreign students so that they at least will pay amounts comparable with costs. At present the tuition fee for a non-resident student is \$250.00 per school year.

**Edgar and Emily Hesslein Scholarship Fund:** It was noted that the money of this fund is on deposit in a bank paying only 1% interest. It is suggested that the account be transferred to a depository paying a higher rate of interest so that more income will be available for scholarships.

#### INDUSTRIAL ACCIDENT BOARD

REPORT No. 52-100

**Insurance Deposit Fund:** The balance in this fund totaled \$8,226.83 on April 24, 1952 and it represents the balances of funds from defunct foreign insurance companies and sureties. It is understood that this balance will be distributed in the near future to creditors who hold claims against these particular companies.

**Public Employees Compensated for Injuries:** Attention is called to the fact that the appropriation for this purpose has been increased from \$132,500.00 in the 1948 year to \$360,000.00 in 1951. The reasons advanced for this increase have been indicated as follows:

- (a) - Higher medical and hospital charges because of the increased cost of these services.
- (b) - Higher amounts of compensation paid out because of changes in industrial compensation laws.
- (c) - Higher number of accidents due to greater number of State employees especially on Public Works Highway projects and Metropolitan District Commission construction.

In connection with the last item it was further noted that this Department has requested the Commission on Administration and Finance to inaugurate a safety program in order that the number of accidents may be reduced.

Attention is also called to the fact that on November 30, 1951 there were encumbered liabilities totaling \$16,193.88 against this appropriation. In addition, there are always outstanding liabilities in varying amounts at the close of every fiscal year which are not reflected on the books of the department. Arrangements should be completed so that these items may be properly entered as they are accrued.

**Rehabilitation Commission:** Chapter 24 of the General Laws, as amended by Chapter 767 of the Acts of 1950 inserting Section 10, provides for the establishment of a Rehabili-

tation Commission in the Department of Industrial Accidents but not subject to its control. This is a seven member Commission, five of whom are appointed by the Governor and Council. They receive per diem compensation, not to exceed thirteen hundred dollars in any fiscal year. Its primary duties are to establish lists of positions and facilities qualified to render competent rehabilitation services for "seriously injured industrial workers." The Commission is also authorized to designate physicians who may act as impartial rehabilitation examiners and who may make recommendations with respect to the need and nature of rehabilitation treatment or services needed by the injured persons.

This Commission meets on an average of once weekly in its offices at 8 Beacon Street Boston, Massachusetts. The Commission does not keep any financial books or records, but does maintain a record of its meetings.

**Bonded Positions:** It was noted that the employees holding the following positions are not bonded:

Chairman of the Board  
Secretary of the Board  
Assistant Secretary of the Board  
Legal Assistant  
Head Administrative Clerk  
Junior Clerk

It is suggested that steps be taken to provide proper bond coverage for the foregoing employees. In this connection it was noted that the Chairman and Secretary have authority to sign checks, while the Assistant Secretary, Legal Assistant and Head Administrative Clerk, and a Junior Clerk have access to the office cash.

## DEPARTMENT OF LABOR AND INDUSTRIES

### GENERAL DEPARTMENT

REPORT No. 52-101

**General Cash Book:** It was noted that cash receipts on account of Prior Year Refunds and unpaid checks are not passed through the cash book but are recorded by means of journal entry. It is suggested that all cash transactions should be reflected in the cash book in accordance with instructions in the Comptroller's Bureau of Accounting Procedure.

**Accounts Receivable:** It was noted that the suggestions offered in prior audit reports with respect to the proper handling for accounting purposes of "bad checks" have been followed. It was noted that the balance of \$28.00 of uncollected items in this category was referred to the Attorney General for disposition in September 1951. Since that date \$5.00 of that amount has been collected.

**Apprentice Training:** It was noted that the agreement for reimbursement between the United States Government and this department for the fiscal year ended June 30, 1952, became effective on July 1, 1951.

In this connection, the Federal Government authorized reimbursements of \$3,840.00 for that period. It was noted that as of April 22, 1952, vouchers for the months of February and March, 1952 totaling \$6,245.27 had not been reimbursed.

### REFORMATORY FOR WOMEN

REPORT No. 52-102

**Sales to Employees:** In this connection the previous audit report stated:

"In connection with this current examination, it was noted that certain services are sold to employees at prices, which by today's standards, appear preposterously low. Attention is called to the fact that laundry is charged for at the rate of only 44 cents per dozen pieces, and household gas is billed at only 8 cents per cubic foot. It is suggested that an effort be made to review the basis of these charges and if possible, arrange to make the charges commensurate with their actual market values."

Inasmuch as no change has been indicated in the policies and prices in effect, attention is again directed to it so that it may be considered.



**Accounts Receivable Collections:** It was noted in several instances that employees are not paying for household gas charges on a current basis. Occasionally payments were made four months in arrears.

It is suggested that steps be taken to collect these items more promptly.

**Telephone Charges:** It was noted that during the month of December, 1951 the institution telephone bill of \$336.57 included items totaling \$104.07 representing employees personal calls. These calls are all subject to reimbursement.

In this connection it was further noted that as of date of audit there was still due from several employees on account of unreimbursed personal telephone calls, a total of \$161.65. Certain of these charges, however, represent items outstanding since July 31, 1951.

It is suggested that steps be taken to hold these calls to a minimum and that the charges be collected as soon as the bills are received from the telephone company.

**Materials and Supplies:** It was noted that there were numerous inventory adjustments passed through the accounts during the audit period. This was explained by institution officials as being caused by the many changes in personnel, which occurred during the period.

**Inmates' Fund:** An analysis of the accounts of the inmates sent out of the institution for day work under authority of Sections 85 and 86 of Chapter 127 of the Tercentenary Edition of the General Laws as amended by Chapter 727 of the Acts of 1950, indicated that 55 inmates have worked in this connection a total of 505 days earning in the aggregate \$2,122.96.

It was noted that all of these inmates were employed as domestics.

**Canteen Funds:** It was noted that occasionally sales are made on a charge basis to employees of this institution. It is suggested that all sales should be made on a cash basis.

There is in the canteen a soft drink vending machine which is serviced by a concessionaire who collects the receipts and pays a commission. Because the inmates are not permitted to carry currency on their person, an advance, usually of \$4.00 in nickels was made to the canteen. When an inmate wishes to purchase this beverage, she is given the currency and the amount is punched on her card. This arrangement naturally creates an overstatement of sales inasmuch as no canteen merchandise is actually sold. During the audit period these transactions totaled \$189.85. It would seem that this type of drink could be provided through the canteen by the simple expedient of providing a cooler where these drinks could be dispensed in bottles.

At the present time one employee is assigned permanently to the canteen as its caretaker. In the event of her absence no regular substitute is assigned. It is suggested in the interests of better accounting that one person be assigned to replace the regular caretaker when it is not convenient for her to be present.

**Accounts Receivable - Industries:** It was noted that there is an outstanding balance owing since April 30, 1951 from an employee of the Department of Correction.

It is suggested that steps be taken to expedite collection of this item.

**Industries - Unfilled Orders:** On the date of audit there were unfilled Industry orders totaling \$12,036.84, as follows:

Sewing Department	\$ 8,326 13
Flag Department	3,611 11
Knitting Department	99 60
	<u>\$12,036 84</u>

In this connection it was noted that the institution policy with respect to orders has been changed. Formerly all orders were accepted regardless of when they might be completed, whereas now only the orders that appear likely of immediate completion are accepted.

**Industry Losses:** It was noted that the Knitting and Poultry Industries indicated operating losses for the 1951 fiscal year as follows:

Knitting Industry	\$4,528 21
Poultry Industry	5,424 17

Industries Goods Sold at a Loss: The comparisons between cost and selling price of certain items shipped in December 1951, indicated that many of them were being sold at what appeared to be losses. These included the following:

Items	Cost Per Unit	Selling Price Per Unit
U. S. Nylon Flags 6 x 9	\$33 86	\$30 50
U. S. Wool Flags 6 x 9	23 42	20 00
U. S. Wool Flags 9 x 15	49 57	43 40
U. S. Wool Flags 6 x 10	22 51	21 00
U. S. Silk Flags 4 1/3 x 5 1/2 Style B	35 77	35 10
U. S. Silk Flags 3 x 5 Style B	28 42	23 80
Hose #84 (Dozen)	5 25	3 95
Bleached Sheets 63 x 108 (Dozen)	30 28	28 11
Drop Cloths 9 x 12 (Dozen)	88 50	72 84
Mattress Covers 36 x 78 (Dozen)	44 16	39 75
Bleached Sheets 54 x 108 (Dozen)	28 64	28 11
Bleached Sheets 63 x 90 (Dozen)	25 15	23 83
Krinkle Spreads 63 x 99 (Dozen)	35 90	34 57

It is suggested that this matter be studied so that items will be sold above cost. Because it is quite probable that the book costs may be inaccurate because of the routines used in establishing and applying overhead, etc., it is also suggested that the assistance of the Comptroller's Bureau be obtained in this direction.

Industry - Inmate Labor: The records indicate that during the 1951 fiscal year the average number of inmates at the institution was 211, yet the average number of inmates employed in the industries totaled 40, or 19% of the population. These were employed during that period in the following industries:

Flag	12
Sewing	12
Knitting	10
Poultry	6
	<u>40</u>

In this connection attention is directed to the fact that the actual overhead for salaries expenses, etc., remains at a fairly constant level. This naturally has the effect of increasing unit costs because the resulting production is low.

#### BOARD OF REGISTRATION OF BARBERS

REPORT No. 52-103

General: Section 41 of Chapter 13 of the Tercentenary Edition of the General Laws provides:

" . . . provided, that the salaries and expenses of the members of the board and the expenses of the board shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

It was noted that the salaries and expenses exceeded the receipts for the four fiscal years, 1947, 1948, 1949 and 1950. However, it was noted that recently authorized rate increases on certain types of licenses resulted in an excess of cash receipts over disbursements for the fiscal year 1951.

Receipts Vouchers: It was noted that in many instances deposits of receipts were not being promptly made. In this connection Section 27 of Chapter 30 of the Tercentenary Edition of the General Laws states:

"Except as otherwise expressly provided, all fees or other money received on account of the commonwealth shall be paid daily into the treasury thereof, but if in the opinion of the commission on administration and finance and the state treasurer the interests of the commonwealth require, payments made be made weekly in accordance with such rules and regulations as the state treasurer may prescribe."



It is, therefore, recommended that deposits be made in accordance with the foregoing.

**Barbers' Renewals:** On the date of audit a United States Postal Money Order dated December 26, 1950 for \$2.00 was included as part of the cash on hand. Inasmuch as money orders cannot be cashed after a year, it is recommended that a new fee be collected in its place. In the future fees such as this should be promptly deposited and in the event that refunds are later necessary, they should be handled through regular channels.

**Bonds:** It was noted that the Senior Clerk who handles cash is not bonded. It is recommended that she be bonded.

#### DIVISION OF INSURANCE

REPORT No. 52-105

**Return of Advance:** It was noted that \$1,557.11 of the 1952 fiscal year advance was used as a return of advance for the 1951 fiscal year. This was because travel expense vouchers for the month of June 1951, which had been processed for reimbursement, had not been returned to the bookkeeper until after the close of the fiscal year.

This is contrary to instructions in the Comptroller's accounting manual which states, -- "Under no circumstances will any part of an advance for a subsequent fiscal year be used as a return of advance for the current fiscal year."

**Prepaid License Fees:** The previous audit report commented that \$298.00 had been received for licenses which were not issued until a later date and that the money involved had not been recorded in the Suspense account.

It was noted that now all cash received prior to the issue of a license had been properly entered in the Suspense account.

#### DEPARTMENT OF PUBLIC WORKS

##### GENERAL DEPARTMENT

REPORT No. 52-106

##### Highways Division

**Inventories:** An integral part of the accounting installation several years ago by the Public Administration Service was a tabulating inventory control. Inventories are maintained in the 39 storehouses located throughout the Commonwealth and the system is designed so as to provide a control in the bookkeeping machine room for the materials and supplies in each of them. A test inventory was taken on June 26, 1952 at the D Street storehouse only. The result follows:

Value per Book Records		\$15,541 29
Value per Physical Inventory	\$15,006 42	
Add:		
Shortages	1,772 21	
	<u>\$16,778 63</u>	
Less:		
Overages	1,237 34	
Value per Book Records		<u>\$15,541 29</u>
Date of Inventory		June 26, 1952
Date Book Records Received		July 23, 1952
Number of Items Inventoried		116
Number of Items Short		41
Number of Items Over		26

In connection with the foregoing, it should be understood that no adjustments had been made since June 30, 1951.

Attention is called to the fact that the department records as of April 30, 1952 indicated a total value of \$2,019,936.95 for the 12,642 items carried in the inventories of all the storerooms maintained by this department in the 39 localities.

In connection with inventory controls, the past few audit reports have stated:

"Previous audit reports have commented on the fact that no control account is carried in the general ledger for materials and supplies. It is suggested in

view of the fact that the book records in the machinery room are so designed as to provide a separate control for the materials and supplies in each of the 42 storehouses, that as of July 1, 1950, separate control accounts be set up in the general ledger for three or four of the storehouses and gradually increase the number of control accounts until all 42 have been provided."

It was again noted that controls have not been installed in the general ledger, therefore, attention is again called to the foregoing recommendation.

**Accounts Receivable:** The active accounts receivable balance on April 28, 1952 totaled \$1,627,797.38. This account included accounts aggregating \$781.84 which represent alternative charges in cases where reimbursement is sought for damages to highways, bridges and guard rails. When either party pays the amount billed, the alternative charge is canceled.

The suspense accounts receivable balance on the same date totaled \$40,217.18 and supposedly represents those accounts turned over to the Attorney General's department for collection, etc. Included in this amount is the sum of \$2,558.44 representing alternative charges.

The suspense accounts receivable were checked with the records of the Attorney General's department and it was noted that 23 of the accounts could not be located in that agency. It is suggested that a new corrected list be turned over to the office of the Attorney General.

These suspense accounts include many old accounts, one in particular involving \$6,902.86 due from the Outdoor Advertising Authority. It would certainly seem that this account could be forthwith disposed of.

It was also noted that credit balances totaling \$515.27 are included with the active accounts receivable as of the date of audit. The balances generally represent part payments of accounts which are listed with the suspense accounts receivable.

It is suggested that the accounts be properly credited.

The unpaid accounts receivable of April 28, 1952 include \$6,000.00 which was credited by an agreement relative to the conversion of Portable Power Plants to alternating current at a cost of \$700.00 each, together with the simultaneous sale of 30 searchlights to the same company for \$200.00 each, making the net unit cost of \$500.00. The settlement of this account has not been effected, despite the fact that the Department records indicate that the 30 searchlights were turned over.

**Classified Pay Roll:** The classified pay roll for the twelve months ending March 31, 1952 totaled \$11,227,615.93 and included overtime payments amounting to \$1,047,582.49.

A tabulation of that pay roll for the week ending April 19, 1952, received from the bookkeeping machine room of this department, indicated a total of 2,622 employees of which 1,406 were of a permanent status, 1,048 temporary, and 168 emergency.

It was also noted that an appointed official received overtime wages during the year ended March 31, 1952. It is understood that payment for overtime to this employee is contrary to rules and regulations established by the Department of Administration and Finance.

**Advances to Employees:** Verification notices were mailed to those individuals who appeared in the records as having balances of advance money for travel and other expenses. In this connection, no replies were received from 34 persons with a total of \$3,693.62 outstanding as of the date of audit.

It was also noted that seven individuals who were not in the employ of this department on that date still owed advance money in the aggregate of \$685.67.

In this connection it is suggested that consideration be given to the discontinuation of the practice of making advances to temporary employees. It is further suggested that when the final pay roll for an employee is prepared that a determination be made as to his liability to the advance funds.

On June 30, 1951 there was a total of \$19,408.51 of outstanding advance money, of which \$5,508.58 represented weekly vacation pay roll advances and \$13,899.93 represented unpaid travel advances. These amounts were finally cleared, although many of them were not returned until a long period subsequent to the end of the fiscal year.

Arrangements should be made so that all advance moneys will be cleared prior to the end of each fiscal year.

**Transits:** Verification notices were mailed to those employees who were charged with having transits in their custody, and of these, 19 were not returned. It was also



noted that two transits, Nos. 135 and 137 which were reported by letter as having been stolen July 14, 1949, were charged off by a vote of the Board at a meeting held May 13, 1952.

**Contracts - Low Bids Rejected:** An examination of the contracts awarded during the period under audit indicated that two contracts were awarded to the second lowest bidder. The contracts represented together with the department's reasons for these awards follow:

<u>Contract Number</u>	<u>Contract For</u>	<u>Lowest Bid</u>	<u>Second Lowest Bid</u>	<u>Reason for Rejection</u>
4818	Repairing roof of Beverly garage	\$ 3,548 61	\$ 3,776 00	Low bid rejected as informal. It contained several abnormally high and low unit prices - as per report of Chief Engineer
5041	Construction of cement concrete block garage in Hanover	45,652 00	46,071 00	One sub-contractor had quoted two prices. Second lowest bidder used higher quotation in error. A nonunion sub-contractor of low bidder requested an assurance of non-interference and such assurance could not be guaranteed

**Contracts Awarded:** During this audit period 314 contracts were awarded as follows:

Under \$1,000.00	23
Over 1,000.00, but under \$5,000.00	79
Over 5,000.00	212
	<u>314</u>

**Contracts for Furnishing 4-Man Survey Parties:** It was noted that 37 contracts had been awarded during this audit period to furnish 4-man survey parties. Six were awarded at \$70.00 per day plus \$.06 per mile for automobile use in 5 instances and \$.07 per mile in one instance. The additional 31 contracts were awarded on the basis of \$80.00 per day plus \$.07 per mile for automobile use.

**Contracts - Extension of Completion Dates:** Attention is called to the fact that Bulletin No. 134, issued by the Commission on Administration and Finance under date of August 1, 1951, which stipulates that the written approval of the Governor must be obtained in all instances of extensions of the completion dates of any contracts to which the Commonwealth is a party, does not apply to this department as it is specifically excluded in accordance with a letter dated August 8, 1951.

**Contracts for Services on Monthly and Per Diem Bases:** It was also noted that 16 contracts were awarded during this audit period for personal services on either a monthly or per diem bases. The individual monthly rate ranged between \$250.00 and \$625.00, and the per diem rates between \$35.00 and \$125.00. In eight instances the contracts also included \$.06 per mile for auto use and allowances for expenses.

**Bridge Painting and Gunite Repair Work Awarded Without Contracts:** In this connection the previous audit report stated:

"An audit of the weekly pay roll vouchers charged to the Department 'Force' account indicates that weekly pay roll checks amounting to \$161,063.88 for three projects not yet completed have been paid to a Painting Company and \$10,830.00 for one incomplete project to another Painting Company. Weekly pay roll checks totaling \$79,489.72 have also been made to three gunite repair companies for the eleven-month period ended April 30, 1951. Inquiry as to why these payments were made and charged to the Labor Force account indicated that the Department has

rented from the two Painting Companies concerned, equipment and seven-man crews at the rate of \$285.00 per day. It had also rented from the above three gunite repair companies equipment and three-man crews at the rate of \$175.00 per day for work on bridges without first having secured competitive bids. It was understood that when the District Engineer determines that a bridge requires painting or gunite repair work, a request is sent to the Bridge Maintenance Department for approval. Subsequent approval by the Executive Assistant for Traffic Maintenance and the Chief Engineer is required before the Board takes action on the request. Copies of the applicable Board votes are sent to all District Engineers and the approval of the projects for their respective Districts constitutes sufficient authorization for the District Engineer to issue a work order to the Company authorized by the vote of the Board to perform the work at the rate and for the period of time authorized in the Board votes.

"In connection with the foregoing, it was noted that within the past 24 months at least four contracts were awarded for the painting of bridges to the lowest bidder of the bids of record, competitive bidding having been secured through invitations to bid inserted in the public press. It was also noted that at least two contracts were awarded for gunite repair of bridges to the low bidder of the bids of record, competitive bidding having been secured through invitations to bid inserted in the public press."

It was noted that 14 approvals appeared in the minutes of the Commissioners meetings during the period covered by this audit for Bridge Painting and Gunite repair work. Of these approvals, 11 involved estimated costs of more than \$5,000.00 each and the other estimated costs of between \$1,000.00 and \$5,000.00.

First Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 306 of the Acts of 1949 which became effective May 18, 1949, provided for a bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was made available to the Department of Public Works and \$8,000,000.00 was made available to the Metropolitan District Commission.

The amount made available for this department was allocated by said Chapter 306 as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundry of Worcester County
- Area 3. Middlesex, Essex, and Norfolk County, including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on state highways and on roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 12. This section provides that detailed progress reports shall be filed with the Governor and with the clerk of the House of Representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

In this connection it was noted that to the date of this audit, \$100,000,000.00 of the bonds authorized under this statute had been issued.

The following is a summary of expenditures and encumbrances incurred under this



act to March 31, 1952:

	Expenditures to Mar. 31, 1952	Encumbrances Outstanding Mar. 31, 1952	Total Expendi- tures and Encumbrances Mar. 31, 1952
Outside Metropolitan Area	\$45,864,306 39	\$ 6,486,679 24	\$52,350,985 63
Metropolitan Area	8,966,352 95	26,364,975 50	35,331,328 45
Traffic Safety	1,959,317 07	13,922 91	1,973,239 98
	<u>\$56,789,976 41</u>	<u>\$32,865,577 65</u>	<u>\$89,655,554 06</u>

Second Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 685 of the Acts of 1950 which became effective July 31, 1950 provided for a second bond issue of \$100,000,000.00. Of this amount, \$92,000,000.00 was again available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The amount made available to the Department of Public Works was allocated by the aforementioned statute as follows:

Section 4. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area".

Section 5. \$54,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston", established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in urban areas. Not less than \$8,000,000.00 of the total sum is to be expended in each of the four following areas:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly  
boundry of Worcester County
- Area 3. Essex, Middlesex and Norfolk Counties,  
Including Route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and  
Nantucket Counties

Also from the total amount, the Department of Public Works may expend from the total amount of \$54,000,000.00 an amount not to exceed \$1,000,000.00 in areas outside Metropolitan Boston for resurfacing existing highways.

Section 6. \$1,000,000.00 to be expended for traffic safety devices on state highways and roads constructed under the provisions of Section 34 of Chapter 90 of the General Laws.

Section 11. This section provides that detailed progress reports shall be filed with the Governor and the clerk of the House of Representatives on December 31, 1950, June 30, 1951 and December 31, 1951, and a final report on or before July 31, 1952 relative to all projects undertaken under the provisions of this act.

Section 12. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1952.

The following is a summary of the expenditures and encumbrances incurred under this law to March 31, 1952:

	Expenditures to Mar. 31, 1952	Encumbrances Outstanding Mar. 31, 1952	Total Expendi- tures and Encumbrances Mar. 31, 1952
Outside Metropolitan Area	\$15,915,951 20	\$18,759,636 09	\$34,675,587 29
Outside Metropolitan Area - Resurfacing	774,607 65	5,953 45	780,561 10
	<u>\$16,690,558 85</u>	<u>\$18,765,589 54</u>	<u>\$35,456,148 39</u>
Metropolitan Area	1,212,410 25	6,353,396 27	7,565,806 52
Traffic Safety	578,974 72	132,367 90	711,342 62
	<u>\$18,481,943 82</u>	<u>\$25,251,353 71</u>	<u>\$43,733,297 53</u>

**Bond Issues - Cost of Individual Projects:** The accounting system of this Department is so organized that it is extremely difficult and impractical to readily obtain the total costs of any specific project. In this connection it was noted that overhead items and certain other costs incidental to project construction are not directly distributed to the accounts of the respective projects. It is recommended that the present accounting system and procedures be sufficiently reorganized or adjusted so that total costs of the individual projects may be readily determined from the general accounting books and records.

**Land Takings:** When the Department of Public Works decides to take land by Right of Eminent Domain a so-called "layout" is prepared which indicates those parcels of land which are to be taken, together with the respective owners. Subsequently a representative of this Department negotiates with the owners of the property relative to making a settlement. When an agreement is reached, an Offer in Settlement is signed by the owner. The offer is thereupon transferred to a real estate conveyancer who is under contract to the Department for purposes of title examination, etc. At least two members of the Board of Commissioners must also approve the transaction before it is submitted to the Office of the Attorney General for approval. In the event that no agreement appears possible, all data relative to the case is immediately submitted to the Attorney General for whatever legal action is warranted.

In the matter of the land takings for the Boston Central Artery a Board of Review consisting of five prominent real estate men were contracted to examine and review all appraisals and a conveyancer was specifically appointed, with the approval of the Attorney General, for the purpose of reviewing and passing on titles on these land takings.

**Land Damage Cases and Allotments:** The following statement represents a comparative summary of the transactions and allotments in this direction for the three years ended June 30, 1951, as per the records in the Right of Way Section of this Department.

<u>Fiscal Year Ended</u>	<u>Number of Projects</u>	<u>Cities or Towns</u>	<u>Number of Land Damage Cases</u>	<u>Allotments</u>
June 30, 1949	33	27	258	\$ 2,643,785 00
June 30, 1950	79	58	1,015	8,827,070 00
June 30, 1951	70	60	1,249	14,952,210 00

The following statement represents the amounts, etc., of land damage cases settled during the two years ended June 30, 1951, as per the records in the Right of Way Section of this Department:

<u>Fiscal Year Ended</u>	<u>Number of Cases Settled</u>	<u>Amount Settled</u>	<u>Right of Way Appraisal Total</u>
June 30, 1950	783	\$2,814,451 93	\$2,903,807 50
June 30, 1951	817	3,061,668 13	2,790,412 10

**Sale of Land and Property:** Previous audit reports have included comments relating to a parcel of land on Nashua Street, Boston, which was sold on May 20, 1941 for \$100,000.00. The terms of the agreement called for a down payment of \$6,500.00 and the balance to be paid in eleven equal payments of \$8,500.00 each with interest at 4%. The down payment of \$6,500.00 was accordingly received but no further payments of principal or interest have been received. A supplemental agreement was reached by both parties on November 16, 1943 which was approved by the Council on December 27, 1944. This later agreement stated in part:

" . . . That the further payments on the purchase price of said premises as required by the terms of said agreement of May 20, 1941 shall be suspended for the duration of the unlimited National Emergency as declared by the President of the United States on May 27, 1941 . . . "

At the Commission meeting which was held on April 20, 1948, this matter of the agreement was discussed, and it was voted to refer the entire matter to the Director of the Division of Waterways for study and a report.

A report on this matter was presented at a meeting of the Commission on November 23, 1948, in which it was stated in part as follows:



". . . On May 20, 1941 the Department agreed to sell a part of the Nashua Street parking space to . . . for \$100,000.00; \$6,500.00 to be paid on delivery of the agreement and the balance in eleven equal annual installments starting with May 1, 1942, plus interest at 4 per cent. He states that on November 16, 1943 there was a supplementary agreement which provided that further payments beyond the \$6,500.00 down payment were suspended for the 'duration of the National Emergency as declared by the President of the United States on May 27, 1941', and the 1941 agreement was suspended until that date, but provided 'that if it appears to the Department that the necessary materials for the construction of the building are available said department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect'."

It was thereupon voted by the Commissioners as follows:

"That . . . be notified that the agreement of May 20, 1941, shall be in effect on January 2, 1949 under the above clause of the supplementary agreement of November 16, 1943, as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945."

In accordance with the foregoing directive, the following letter was sent to the purchaser by the Secretary to the Commission:

November 23, 1948

Dear Sir:

This is to inform you that the agreement of May 20, 1941 between you and this Department, on the matter of the purchase of a portion of the Nashua Street parking space, shall be in effect on January 2, 1949, under the clause of the supplementary agreement of November 16, 1943 - 'that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said . . . that on a date named in said notice said agreement of May 20, 1941 shall be in effect . . . ' as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945. In the opinion of this Department materials for the construction of the building are now available.

Very truly yours,

Reg. Mail

Secretary

Despite the foregoing, no further payments have been received to date of audit. In this connection the Department's file on this case was transmitted to the Attorney General on January 29, 1951.

It was further noted that effective May 1, 1950, this department issued a revocable permit to another party to use this area under certain conditions as a parking lot on evenings, Sundays and Holidays, for a fee of 10% of the gross receipts.

Attention is also directed to the fact that when this land was sold in 1941 it was the property of the Division of Waterways, but now it is considered as related to the Department of Public Works.

Federal Aid: As a result of a special examination made by Department of the State Auditor of the Federal Aid accounts covering the period from July 1, 1944 to June 30, 1950, a report was subsequently issued which included the following recommendations.

Bookkeeping - It is recommended that:

- (1) All record keeping relating to Federal Aid be centralized in one place
- (2) One over-all control accounts receivable be set up in the general ledger, which at the end of each month will show the grand total of the receivables
- (3) Sub-control accounts be set up - each control account to be supported by detail accounts, showing balances in the following stages:

a Unprogrammed Balances

- b Programmed Balances
- c Plans, Specifications and Estimates, Balances
- d Agreement Balances
- e Actual Accounts Receivable

Postings to be made currently and trial balances taken at the end of each month

It was noted in connection with the current examination that the foregoing regulations have now been entirely adopted.

As was stated earlier in this report the Federal Aid accounts were not audited at this time. An examination of the Federal Aid projects in the actual accounts receivable stage as of March 31, 1952, however, indicated that the Department still carried on its books balances totaling \$21,044.17 which are apparently non-collectible and have been transferred by the Federal Bureau of Public Roads, on their records, to Unprogrammed Funds available to the Department for new Federal Aid projects. These projects are as follows:

<u>Project</u>	<u>Balance</u>	<u>Date</u>
FI - 318 (3) Deerfield	\$11,104 40	May 1951
FAP - 273 (5) Fitchburg-Westminster	5,013 92	June 1950
FG - 273 (8) Leominster	4,925 85	January 1951
Total	<u>\$21,044 17</u>	

It is recommended that steps be taken to obtain authorization for the canceling of the foregoing accounts.

In connection with the unpaid accounts receivable the previous audit report stated as follows:

"It was also noted that on March 31, 1951 the Department carried as Accounts Receivable a balance of \$16,024.50 on Project F-114 (3) Lenox, which is a duplicate billing dated January 27, 1950. The original billing dated December 30, 1949 was paid by the Federal Bureau of Public Roads on January 13, 1950."

Attention is now directed to the fact that the foregoing item was canceled on October 15, 1951.

Employees' Bond Fund: It was determined that twenty-two employees have more than one bond savings account. Although each account does not have a balance sufficient to warrant the purchase of a bond, in some instances the combination of two accounts does. These accounts should be combined. It was also noted that an employee who appears on the classified pay roll has a small balance in the bond savings account in the Labor Section. It is, therefore, suggested that his balance be properly transferred.

The Employees' Bond Fund contains deposits accumulated to credit of certain individuals who have retired or are otherwise presently separated from the service. Amounts also are due individuals who have canceled their pay roll bond deductions. An effort should be made to clear these accounts by payment of balances to the proper persons. The total amount owing to these individuals after the pay roll week ending April 19, 1952, totaled \$445.91.

#### Division of Waterways

Books of Accounts: The previous audit report stated that the general ledger had not been posted since June 30, 1945, and that it was understood from the head administrative clerk that every effort would be made to bring it up to date. It was noted, however, that on the current audit date the same condition prevailed. It is suggested that arrangements be completed to make the necessary entries in the general ledger and that all postings be made currently thereafter.

Delinquent Billings: Previous audit reports have commented on the fact that on the opening dates of these audits, billings for use of pier facilities and license charges have not been made currently and in many instances were months late.

It was noted, however, that as of the date of the current audit, April 28, 1952, all billings were current.

Accounts Receivable - Overdue Accounts: In aging the accounts receivable it was noted that 144 accounts, totaling \$12,179.07 and dating back to 1950 and prior years, were still carried in an active category.



During previous examinations of the records of the Waterways Division, suggestions were made that all accounts more than one year old be turned over to the Attorney General for collection or disposition.

In this connection the Comptroller's Bureau Accounting Manual provides that all overdue accounts be referred to the Attorney General for collection and provides further that they be set up in a separate suspense accounts receivable. It is again suggested that these provisions be followed.

Accounts Receivable - Verification Notices: The Outstanding accounts receivable as of date of audit totaled \$28,631.17 and comprised 199 accounts. Verification notices were mailed to approximately 20% of these accounts. Several notices were returned by the Post Office Department marked, "address unknown", "deceased", etc. A few others were also returned with notations indicating they had no record of the charge. These latter cases were referred to the head administrative clerk of the Department and duplicate bills or the explanations were sent. From the foregoing it would appear that the accounts should be controlled more carefully. In the case of overdue accounts, statements should be rendered at least monthly.

Income - Sale of Atlas Sheets, Blueprints, Maps, etc.: At the present time the employee who sells any of these items simply writes a memorandum to the accounting office in order that necessary charges and collections may be recorded.

It is, therefore, again suggested that the standard form of sales books be used for these sales in accordance with the Comptroller's Bureau Accounting Manual, which states:

"A sales book will be given to each person who has authority to make a sale on behalf of the Spending Agency. When a book is completely filled it must be turned in before a new one will be issued."

Income - New Bedford Pier: In this connection the previous audit report stated:

"It was noted that the dates appearing on the reports of the Pier Superintendent for the use of the facilities and the date of the actual billings for these charges differ. It is suggested that all pier superintendent's reports be date stamped in the financial section of the Division of Waterways upon receipt."

These reports are now being properly stamped in conformance with the foregoing suggestion.

Certified Copy Charges: In this connection the previous audit report states:

"In checking from the register of charges for certified copies to actual billings it was noted that in two instances certified copies were sent out but no corresponding charges were set up for these bills.

"In order that there will be no recurrence, it is suggested that all certified copies be prenumbered in the register with corresponding numbers on the actual bills. The accounting office will then be able to ascertain that all bills for certified copies are controlled through numerical sequence."

It was noted that the foregoing suggestion has been complied with and the necessary changes have been made.

Gloucester Fish Pier: On February 26, 1937 the Commonwealth of Massachusetts through the Department of Public Works, in accordance with the provisions of Chapter 311 of the Acts of 1931, Chapter 303 of the Acts of 1936 as amended by Chapter 29 of the Acts of 1937 and Chapter 91 of the General Laws, leased to Gloucester Community Pier Association, Inc., the Gloucester Fish Pier with certain buildings to be erected thereon at an annual rental of \$20,000.00, said lease to run for twenty years. On October 10, 1949, the lease was extended for a twenty-year period to September 30, 1969, and the rent was increased to \$25,000.00 annually to be paid quarterly, beginning October 1, 1949.

Under the provisions of Chapter 653 of the Acts of 1945, as amended by Chapter 663 of the Acts of 1947, the Department of Public Works was authorized to expend not more than \$350,000.00 to make certain additions to a building and its equipment which are located on the Gloucester Fish Pier, provided that the Department shall first execute an

agreement with the Gloucester Community Pier Association, Inc. to reimburse the Commonwealth for the cost of such work in twenty equal annual installments, the first to be made on the date of completion of the work. Such an agreement was executed as of October 10, 1945 and was amended on September 3, 1947. The work was completed on December 19, 1949 at a cost of \$349,479.34 and the first annual payment of \$17,473.97 was accordingly received on January 31, 1950. Payments on the second installment were completed August 24, 1951. The balance of the third installment unpaid on April 28, 1952 totaled \$7,473.97.

Leases Between Commonwealth of Massachusetts and the Fall River Line Pier, Inc.: Under authority of Chapter 665 of the Acts of 1945 and Chapter 308 of the Acts of 1947, a lease was entered into on May 17, 1948 for a term of twenty years in the aggregate rental of \$1,000,000.00. This rental was divided to be paid in each of the years as follows:

\$22,000 00 yearly	First 2 years	\$ 44,000 00
24,000 00 yearly	3rd year	24,000 00
30,000 00 yearly	4th year	30,000 00
38,000 00 yearly	5th year	38,000 00
46,000 00 yearly	6th year	46,000 00
51,000 00 yearly	7th and 8th year	102,000 00
50,000 00 yearly	9th to 14th year	300,000 00
55,000 00 yearly	15th year	55,000 00
63,000 00 yearly	16th year	63,000 00
70,000 00 yearly	17th year	70,000 00
76,000 00 yearly	18th, 19th and 20th year	228,000 00
Total		<u>\$1,000,000 00</u>

The annual rentals are to be paid in equal quarterly payments as follows: the first quarterly payment to be made three months after the date of the lease and subsequent payments on corresponding dates of every third month in each year during its term.

In this connection the previous audit report stated:

"In reference to the foregoing lease, it was noted that the last payment made under it by the Fall River Line Pier, Inc. was through February 17, 1950, and that charges have only been set up to May 17, 1950. On the date of audit, there was an outstanding balance of \$5,500.00 in this account.

"In this connection, the following memorandum from the Chief Administrative Clerk to the Director of Waterways, which was entered in the board records on January 30, 1951 is shown:

COPY

January 25, 1951

"-----, Chief Administrative Clerk  
-----, Director

Fall River State Pier  
unpaid rentals under lease

The last payment made by the lessees of the pier was for the quarter ending February 17, 1950. Bills have been rendered for the ensuing three quarterly periods, ending November 17, 1950. Several conferences have been held by the Commissioners with Fall River officials relative to the Department's inability to complete construction due to insufficient funds. The Fall River officials have stated that they could not make any further payments under the lease, as they have been deprived of potential income from the property, due to its incomplete state.

It appears that some revisions in the lease will be required covering rentals, but these will necessarily have to be delayed, pending additional legislation to modify rental requirements as set up under the enabling act.

The question of our continuing to send rent bills was discussed with Assistant Attorney General Garret Barry, who attended several conferences at the Commissioner's request, and Mr. Barry advised that we send the bills and simply



hold copies as a pending matter for future adjustment, without entering them as accounts receivable, since there appears to be some doubt as to whether or not the rentals are collectible under present conditions.

This memorandum is submitted as a matter of record.

/s/ -----  
Chief Administrative Clerk"

It was noted in connection with the current audit that the records in the Division of Waterways indicate that the Fall River Line, Inc. has been billed for \$46,500.00 for the period from August 1, 1950 to February 4, 1952, in accordance with the terms of the lease. This amount does not appear, however, in the accounts receivable ledger of this division and although the total balance due is \$52,000.00, the amount represented in the ledger is only \$5,500.00.

**Contracts Not Awarded to Low Bidder:** It was noted that two contracts were awarded by this Division to other than the lowest bidder during the period of this audit, as follows:

<u>Contract Number</u>	<u>Contract</u>	<u>Low Bid</u>	<u>Second Low Bid</u>	<u>Reason for Rejection</u>
1167	Fender repair of State Pier, New Bedford	\$ 835 01	\$ 1,360 00	Low bidder made error in computation and requested an opportunity to make change which was not allowed
1187	Dredging of Green Pond, Falmouth	33,770 00	36,540 00	Low bidder could not start job immediately

#### DIVISION OF EMPLOYMENT SECURITY

REPORT No. 52-109

**General:** Funds for unemployment compensation payments and for administration of the State Division of Employment Security are provided for by maximum taxes of 3% assessed against pay rolls. Funds expended in Massachusetts for these purposes are provided for or offset entirely by collections from employers within this Commonwealth. All employers now pay the maximum State levy of 2.7%.

Irreducibly included in these taxes is an assessment of .3% collected by the Federal Government from employers, which, while it is not segregated for this purpose, offsets the sums provided by the Federal Government to administer unemployment compensation. Under this levy, on the basis of available statistical records, it is understood that Massachusetts employers have paid into the Federal Treasury from January 1, 1936 through June 30, 1951 (collected in each case in the following year) approximately \$94,843,000.00. As an offset to this Federal Revenue, the Commonwealth has had returned to it for administration of the State Division of Employment Security during this period approximately \$56,234,000.00 or only approximately 59.3% of the total collected from Massachusetts employers. It was not possible to determine from information available whether any part of the excess collected from Massachusetts employers has been distributed to other states. It was determined, however, from figures available that the Federal Government has collected during this period \$1,000,000,000.00 more than has been returned to the various states, and that Massachusetts taxpayers have contributed approximately \$38,609,000.00 of this surplus.

It does not appear to be a proper operation in government to thus accumulate needless surpluses in restricted funds as a result of excessive taxation. To correct this situation the present Federal surplus accumulated by these collections should be distributed to various states in the same proportion by which it was accumulated, and the provisions of the law should be altered so that these funds will henceforth be collected directly, then retained, and administered by the various states.

Legislation affecting these changes cannot be enacted by the Massachusetts General Court, but must be ordered by the Congress of the United States.

**Payment of Claims:** In connection with this audit, a survey was conducted to determine the currency of the processing and payment of benefit claims by the Division.

Due to an amendment of Section 39 of the Massachusetts Employment Security Law effective November 7, 1949, initial appeals from determinations which are initially made

in the local offices are heard by a new Determinations and Hearings Unit. The Board of Review now hears second stage appeals and as of April 30, 1952 only 195 cases were pending before this Board.

Claims referred to the Determination and Hearings Unit by local offices for review and determination were not examined, but a copy of a summary report of determinations and activities of this Department furnished information as to disposition of claims.

**Reconciliation of Certain Bank Balances:** The bank balances in the Benefit Account and the Readjustment Allowance Act Account were reconciled by the tabulating machine section of this division as of the close of business, May 8, 1952.

Since the beginning of the 1952 fiscal year the division has received periodic advances from the State Treasurer for the payment of salaries to its employees. These advances are deposited in the so-called "Regular Account". When the pay rolls are prepared checks for the gross pay rolls are drawn on this account and deposited in a "Pay Roll Account". Individual pay roll checks are prepared by the tabulating machine section and monthly a list of outstanding checks is submitted to the pay roll section for bank reconciliation purposes. An analysis of the "Regular Account" indicates that \$5,541,771.67 had been transferred to the "Pay Roll Account" from July 1, 1951 to May 9, 1952. It was noted however that although monthly outstanding check lists were available no bank reconciliations had been compiled during this period. It was also noted that the pay roll records were maintained in such form that the unexpended balance in the "Pay Roll Account" was not readily determinable. When advised of this situation immediate steps were taken to correct it. While this audit was in progress a bank reconciliation as of close of business May 8, 1952 was made available and a pay roll control register was designed and placed in operation.

An analysis of this bank balance as of May 8, 1952 follows:

Retirement Deductions, April 1952	\$ 24,103 16
Extra Retirement Deductions, April 1952	1,545 96
Retirement, September 1951	5,039 18*
Extra Retirement, September 1951	454 93*
Withholding Taxes, April 1952	71,528 70
Amount to be returned to "Regular" account - check #117 overwritten	14 53
Issued to replace canceled check, on April overtime	3 39
Due the Uncashed Check Account (Chapter 759)	210 23
Due employees not yet approved - April	101 39
May 1 - 8, 1952 Deductions not yet paid	24,513 65
Lost Checks Replaced	108 80
	<u>\$127,623 92</u>
Less:	
Amount Overpaid to Employee on November 9, 1951 to be Reimbursed	10 00
Total	<u>\$127,613 92</u>
Balance May 9, 1952	\$125,917 01
Add:	
Check #118 received from regular account and deposited in pay roll account May 15, 1952	1,696 91
	<u>\$127,613 92</u>

\* The amount transmitted to the State Employees' Retirement Board for September 1951 deductions was less than the amount the September pay rolls indicate was deducted from employees earnings by \$5,494.11. This difference was paid to the Retirement Board on May 23, 1952.

In view of the foregoing it is suggested that this account be reconciled monthly and that its balance be analyzed to determine whether it includes any unusual items which should be adjusted.

**Stock Accounts:** The records in the stock room indicate that the inventory of supplies on June 1, 1952 was as follows:

Forms U. C.	\$ 61,910 79
Forms D. E. S.	2,019 31



Forms V. A.	\$ 1,329 60
Supplies	54,735 63
	<u>\$119,995 33</u>

It was noted that the foregoing values are determined annually on June 1 by multiplying approximately eleven hundred ledger card unit balances by the unit costs and totaling the values shown on the respective card. Because of this arrangement the actual amount of the physical inventory is available as of only one day in each year. In this connection previous audit reports have commented on the fact that a control account for these supplies should be carried on the general ledger. This matter was reviewed by the Comptroller's Bureau which as a result indicated that such an account was unwarranted because:

"The Inventory as of July 1, 1949 of \$92,347.91 is large, but Forms valued at \$62,464.23 have no saleable value. The Office Supplies are valued at \$29,883.68. It is the opinion of this Bureau that sufficient internal control over Stock is being exercised by the Division and the establishment of a control account is not warranted."

Relation of Benefit Payments to Employer Contributions: In compliance with Section 14 (d), Chapter 151A of the Tercentenary Edition of the General Laws, the four lowest contribution rates were increased by .5% with a maximum of 2.7%, effective as of January 1, 1950, and effective January 1, 1951, the rates were all made 2.7% and are still being maintained at that percentage. A statement of benefit payments together with employer contributions and interest is, for the three fiscal periods since July 1, 1950, as follows:

Date	Employer Contributions and Interest Less Refunds	Interest Credited by U.S. Treasury	Total	Net Benefit Payments
1950 Fiscal Year	\$ 49,061,832 72	\$3,104,843 77	\$ 52,166,676 49	\$111,683,504 18
1951 Fiscal Year	76,353,425 29	1,418,168 01	77,771,593 30	48,599,744 22
July 1, 1951 to May 9, 1952	94,030,571 71	2,751,093 52	96,781,665 23	49,546,530 05
	<u>\$219,445,829 72</u>	<u>\$7,274,105 30</u>	<u>\$226,719,935 02</u>	<u>\$209,829,778 45</u>

The effect of the increased contributions rates is clearly reflected in the above table. It is also interesting to note the sharp decline in benefit payments during 1951.

New Legislation: Chapter 763 of the Acts of 1951 incorporated several revisions into Chapter 151 of the Tercentenary Edition of the General Laws. A different method of determining the experience rate of employers is now in effect. This Act also calls for the creation of a "Solvency Fund".

In this connection Sections 14L and 14M of said Chapter 151A of the Tercentenary Edition of the General Laws follow:

"Section 14L. The contribution rate of each employer shall be two and seven-tenths per cent of that part of his pay roll subject to this chapter, except as follows:-

(1) Whenever, as of any computation date after nineteen fifty-one, the unemployment compensation fund available for benefits is equal to or exceeds six per cent, but is less than seven per cent, of total taxable wages as above determined, the experience rate for each employer for the ensuing calendar year shall be determined on the basis of his reserve percentage in accordance with Schedule A.

Schedule A provides experience rates ranging from 1% to 2.7%.

(2) When the fund equals or exceeds seven per cent of total taxable wages, the director shall so declare and in the quarter immediately following the experience rate for each employer shall be determined on the basis of his reserve percentage in accordance with Schedule B for the following year and for all subsequent years as long as the unemployment compensation

fund equals or exceeds five and one-half per cent of total taxable wages. If at any time the unemployment compensation fund is less than five and one half per cent of total taxable wages, the director shall so declare and effective the quarter immediately following such declaration, the experience rate of each employer shall be two and seven-tenths per cent for the remaining quarters of the calendar year and for subsequent calendar years, until the fund reaches or exceeds six per cent of total taxable wages, at which time the director shall so declare, and effective the quarter immediately following such declaration the experience rate for each employer shall be as in Schedule A."

The rates in Schedule B range from 0.5% to 2.7%.

"Section 14M. If, as on any computation date, the reserve percentage of the solvency account is less than one per cent, each employer, in addition to his experience rate, shall be liable to pay contributions on his taxable pay rolls for the ensuing year at the solvency rate corresponding to the reserve percentage of the solvency account shown by the following table:- provided, however, that no employer shall be required to contribute a total aggregate amount of all contributions required under this section of more than two and seven-tenths per cent of his taxable pay roll."

The solvency rate table referred to in Section M may range from .1% to 1%.

It was indicated by officials of the Division that reduced contribution rates for employers might become again available in 1954, as reductions in employer tax rates cannot become effective until the amount in the Reserve Fund for the payment of unemployment insurance benefits equals or exceeds six per cent of the total taxable pay rolls of all employers in the State for the twelve-months period immediately preceding the computation date (September 30).

The total taxable wages for the 1951 calendar year was \$3,622,500,293.00 and this amount is subject to increase because of necessary minor adjustments with this amount representing the total taxable wages for the twelve-month period immediately preceding the applicable computation date (September 30, 1952), the fund balance would have to be \$217,350,017.58 or more in order that lower employer experience rates could become effective for the succeeding calendar year of 1953. As of May 9, 1952, however, the fund balance was only \$160,001,153.40.

Survey of Tabulating Equipment by the Division: It was noted during the progress of this audit that several employees in supervisory capacities were taking a course of instruction on tabulating equipment of a different manufacture than that used by the Division. The tabulating installation of this Division represents the largest used by the Commonwealth. Since this course of instruction was being pursued by State employees during a portion of the working day for which they were being paid by the Commonwealth, further inquiry was made into the matter. It was learned that there was in progress a survey to determine the advisability of changing from the currently used equipment to equipment offered by another firm. There was no evidence available that any definite commitments had been made on this proposed change-over as of the date of audit. It is suggested that adequate consideration be given the following facts by the Division before reaching its decision.

1. The cost of reproducing certain vital records already in existence which cannot be used on the proposed tabulating equipment.
2. The unavoidable delays that will be caused by the change-over and the training of personnel on the new equipment.
3. The comparative efficiency and cost of the new equipment.

Debit Memoranda: Quarterly wages and contribution reports as submitted by the employers are examined by the Reports Audit Division of the Contribution Department, and if it is determined that additional contributions, interest or penalties are payable to the division so-called debit memoranda are issued. The amount determined to be due from each employer is then posted to the employer ledger account in the Delinquency and Collection Division.

When checks received in payment of contributions are returned by the bank as dishonored, charge vouchers are made out by the cashier's unit, and debit memoranda are correspondingly issued to the employers.



The total amount of debit memoranda is reflected in the State general ledger in the account "Contributions Receivable - Underpayments". The balance in this account on April 30, 1952 was \$1,565,626.62.

**Delinquent Employer Reports:** In addition to the amounts included with the debit memoranda, there are instances where employers have not actually submitted required quarterly wage and contribution reports, hence the amounts due are not known. Figures compiled by the Delinquency and Collection Division of the Contribution Department of the Division show the number of employers delinquent in filing reports as of April 2, 1952 to be as follows:

	<u>Employers</u>
Delinquent Current	614
Field Audit Outstanding	1,756
Legal Dept., Litigation	604
Legal Dept., Bankruptcy	275
Status Review	573
	<u>3,822</u>

**Maintenance Expenses:** A comparison of certain maintenance expenses for the three fiscal years ended June 30, 1951 follows:

	<u>Fiscal Year</u> <u>1949</u>	<u>Fiscal Year</u> <u>1950</u>	<u>Fiscal Year</u> <u>1951</u>
Personal Services	\$5,221,131 60	\$6,537,013 73	\$6,199,605 04
Rent of Buildings	344,786 15	366,708 09	464,622 02
Rental of Office Machinery	165,894 16	185,944 99	194,191 80
Repairs - Office Furniture and Fixtures	10,560 99	47,433 43	13,223 85
Purchase of Equipment	7,821 33	56,584 24	81,260 80
	<u>\$5,750,194 23</u>	<u>\$7,193,684 48</u>	<u>\$6,952,903 51</u>

**Restaurant:** There is a restaurant in operation in the basement of 881 Commonwealth Avenue, Boston, which is operated by an individual not a Division employee. To date there has been no income from this source accruing to the Division which at present furnishes space, heat, light and water. In the past the Division reviewed the possibility of assessing rental charges to a predecessor concern but decided that to make such charges would work a hardship on the proprietor. It is suggested that the Division review the current situation in the cafeteria to determine whether charging a rental fee would now be practical.

#### BOARD OF REGISTRATION IN PHARMACY

REPORT No. 52-110

**Current Pending Applications:** These items as of May 9, 1952, consisted of 247 applications for examinations for Registered Pharmacists, 21 Drug Store Permits, 17 for Certificates of Fitness, 3 for Wholesale Druggists, one for Reinstatements, and five for Duplicate Certificates.

**Pending Applications in the Inactive Files:** These applications, represented 15 who have failed to appear for examinations.

**Numbering of Certificates:** It was noted in the previous audit report that the certificates issued to Registered Pharmacists upon passing examinations were numbered by a hand numbering machine by the Pharmacy Board personnel. It was noted that the numbering of these certificates is now done by the printer.

#### DIVISION OF ACCOUNTS

REPORT No. 52-114

**Advances to Employees:** It was again noted that the procedure outlined in the Comptroller's Manual for handling advances to employees is not being followed in this department.

The cash book indicates that an entry is made when money is advanced and another entry is made when the money is returned, making two entries for the same transaction. It is therefore suggested that the Comptroller's Bureau instruct this department in the

proper procedure of recording advances to employees.

## STATE LIBRARY

REPORT No. 52-117

**Unpaid Rental:** The previous audit report stated that the present method of paying for rental of space in the New England Deposit Library results in a liability at the end of a fiscal year which is not reflected in the accounts payable account for that fiscal year. This amount is \$2,250.00 and represents rent for the first six months of the calendar year.

In this connection it was noted that a request was made to the Budget Bureau for a deficiency appropriation in the amount of \$2,250.00. If this amount is granted the liability for the first six months of 1952 can be set up as an encumbrance in the fiscal year 1952. Funds would then be available at the end of each fiscal year thereafter to set up the account payable.

## PUBLIC BEQUEST COMMISSION

REPORT No. 52-119

**Accumulation of Fund:** In this connection the previous report stated:

"Section 28C of Chapter 6 of the Tercentenary Edition of the General Laws reads as follows:

'Section 28C. Distribution of Income - When, and so long as, the principal of said fund amounts to five hundred thousand dollars, said commission, with the approval of the governor and council, may distribute, in accordance with its rules and regulations relative thereto, the income from said fund to such worthy citizens of the commonwealth, as, in its opinion, by reason of old age and need, are entitled thereto. No man under sixty-five and no woman under sixty shall be deemed to be entitled to assistance from such fund.'

"It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$3,741.20. Since no payments may be made from the fund until the principal amount to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out."

There were no contributions received by this fund during the audit period.

## STATE TEACHERS COLLEGE AT FITCHBURG

REPORT No. 52-121

**Income from Vending Machines:** In this connection the previous report stated:

"An analysis of income for the audit period showed that there was no revenue from this source although several vending machines are used in the various College buildings. This matter was discussed with the Dean of the College and it was learned that the income from this source is credited to the Student Activity Fund."

No change in the handling of this source of income was noted during this audit period.

**Cash Account:** In reconciling the physical cash with the cash book balance a difference of \$10.08 was noted. It was noted that this shortage of \$10.08 was corrected by a transfer of \$10.00 from the Students' Book Shop Fund while the examination was in progress, because it developed that the Students' Book Shop Fund had an overage of that amount at the same time. It was understood that this transfer was made on the advice of a representative of the Comptroller's Bureau since these two funds are handled by the same clerk.

It was also noted that there were two checks of \$11,830.65 each issued to the Commonwealth of Massachusetts as transfer of income to the State Treasurer through error. When this was noted the principal clerk took steps to recover this duplication and on June 5, 1952, a check was received by the College.

**State Fund Bank Account:** In reconciling this account it was necessary to make an adjustment of \$1,354.55 because two deposits had been made to this account instead of to the Students' Book Shop Fund. The necessary corrections were made while this examination was in progress.



**General Ledger Not Posted:** On the date of audit the general ledger was not completely posted beyond January 31, 1952, consequently no monthly financial reports had been prepared since that date. This situation was occasioned by the recent death of the principal clerk.

**Old Outstanding Accounts to be Sent to Attorney General:** On date of audit it was noted that there were several outstanding accounts which were more than one year old. It is therefore recommended that the College officials review all accounts and refer those that are delinquent more than a reasonable time to the office of the Attorney General for collection or disposition.

**Quarters Register Not in Use:** It was impossible to verify the income from the rental of apartments or rooms to employees because a quarters register, as prescribed by the Comptroller's Bureau regulations, had not yet been installed. It is therefore recommended that it be made part of the system without delay.

**Out-of-State Students Not Paying Prescribed Tuition:** A detailed review of students' addresses as indicated on their applications for admission was made in order to verify that they were paying the rate applicable to their residential status. In this connection it was noted that four students paid the rate established for in-state students even though it appeared that they should have paid the out-of-state rate.

The names of the students were called to the attention of the Dean of Men who will review them and take necessary action.

## DEPARTMENT OF EDUCATION

### GENERAL DEPARTMENT

REPORT No. 52-122

**Accounts Receivable - Sales:** Because of the system in use it was determined to be impossible to accurately audit the sales made during this period through the medium usually employed - by accounting for all sales books and slips used through physical inventory of these forms at both the beginning and the end of the audit period. In this connection it was noted that these sales books are frequently used to record memoranda of future sales - in effect they function as order blanks. In some instances it was found that the sales did not actually become effective until one year or more later. This matter was discussed with the proper departmental personnel and it is understood that the practice will be discontinued as of the end of the current fiscal year.

Attention is also directed to the fact that there does not appear to be any organized routine for following through unpaid bills. In this connection it was noted that there was presented for audit 249 allegedly unpaid bills in the aggregate amount of \$641.06. These represented Audio-Video items and had never been included with the accounts receivable control account. Confirmation notices were mailed in an effort to verify the balances indicated. From the replies received it was found that many had been paid at previous times, yet the bills had not been removed from the unpaid file.

It was also learned that many of the foregoing items were owed by inmates confined in correctional institutions. It is suggested that orders from these individuals not be accepted until someone in authority in the particular institution indicates that there are available means to liquidate the obligation.

**Bookkeeping - General:** In the past several audits, the examination has been unnecessarily delayed because the records were not being currently maintained. In this connection it was noted that on the date of audit the departmental cash book had not been posted for a week, and the general ledger had been posted only to December 31, 1951.

**Outstanding Accounts Receivable:** Attention is called to the fact that an item has been owing for breakage of records in the amount of \$30.96 for a considerable length of time. It is now suggested that this account be turned over to the Attorney General for disposition.

**Refund Schedule:** It was noted that refund schedule number 22 was posted to the general ledger control account on two occasions - in December 1951 and January 1952.

**Suspense Account:** The previous audit report referred to the fact that the Suspense Column in the cash book indicated a balance of \$682.17 while only \$190.14 could be identified. In this connection it was noted that a representative of the Comptroller's Bureau, after spending considerable time finally established an amount and adjusted the difference.

**Obsolete Books:** It was again noted that the inventory of books included many which are now obsolete. It is again suggested that the assistance of the State Purchasing Agent be obtained so that they may be offered for sale or otherwise disposed of.

# DIVISION OF FISHERIES AND GAME

REPORT No. 52-123

**Labor Pay Rolls:** Formerly employees in the labor service were paid on the 15th and the last day of each month from advance money secured for this purpose. Effective July 1, 1952, however, this practice will be discontinued and these employees will be paid by the State Treasurer from a monthly pay roll with the customary "Draw" privileges. This change is made in accordance with instructions received in a letter dated June 12, 1952 from the Comptroller's Bureau.

**Shortage in Cash Account:** The previous audit report commented on a shortage of \$30.00 in the income cash account, apparently due to a theft of license money from a locked cash drawer. This shortage was reported to the Attorney General's office on February 4, 1952 and a communication was received from that Department dated June 25, 1952, authorizing the charging-off of this item.

**Accounts Receivable:** The previous audit report stated that the sum of \$31.25 was due from the Town of Mashpee, as follows:

Sales of 1949 Licenses	\$25 25
Sales of 1950 Licenses	6 00
Total	<u>\$31 25</u>

It was noted that this item was turned over to the Attorney General's office for collection in September, 1950.

**Control Accounts Receivable:** It was noted that a Control Accounts Receivable account is not being carried in the general ledger, the reason apparently being that practically all the income is on a cash basis. It is nevertheless suggested that the Comptroller's Bureau be requested to provide such an account.

**Wildlife Co-operative Research Project Contribution:** The previous audit report stated:

"An amount of \$6,000.00 was appropriated to the Division for the fiscal year ended June 30, 1950, but the account was not included in the records of the Division for that year. It was learned that the Federal Government grants \$6,000.00 for this purpose and the University of Massachusetts also receives an appropriation of \$6,000.00 for this project. The records are maintained, however, at the University of Massachusetts in Amherst. It is suggested that all future appropriations for these purposes be requested by the University of Massachusetts, as this Division apparently has no control over the expenditure of these funds."

It was noted that the situation remained the same for the fiscal year ended June 30, 1951.

**Inland Fisheries and Game Fund:** This fund is authorized by Section 3A of Chapter 131 of the Tercentenary Edition of the General Laws and is made up of license fees, fines, etc., pertaining to inland fishing and hunting.

Said Section 3A further provides the purposes subject to appropriation that the fund shall be used for. One of these purposes is provided for by Paragraph 8, which reads as follows:

"For payment of one-half of the amount necessary for personal services, and other expenses for or on account of the enforcement of the laws relating to game and inland fisheries."

To carry out this provision the sums of \$93,250.00 and \$87,020.00 were transferred on the books of the Comptroller's Bureau from the Inland Fisheries and Game Fund, to the General Fund for the fiscal years 1950 and 1951 under authority stated in the appropriation acts of the years concerned, the amounts so transferred being one-half of the totals of the respective appropriations.



The records in the Comptroller's Bureau show that for the fiscal years 1950 and 1951 the Unencumbered Balances of Account #1003-03 Division of Law Enforcement - Conservation Officers reverted to the General Fund in their entirety not withstanding the fact that 50% of the appropriations came from the Inland Fisheries and Game Fund.

These facts were brought to the attention of the Director of the Division of Fisheries and Game who in turn so advised the State Comptroller. It was understood that \$17,103.18 will be transferred from the General Fund to the Inland Fisheries and Game Fund. This amount being computed as follows:

<u>Fiscal Year - 1950</u>	<u>Total Appropriations</u>	<u>Inland Fish And Game Fund Appropriation (50%)</u>	<u>Adjustments</u>
Appropriations	\$186,500 00	\$93,250 00	
Cash Expenditures	161,123 75	80,561 87	
Unexpended Balance	<u>\$25,376 25</u>	<u>\$12,688 13</u>	\$12,688 13
<u>Fiscal Year - 1951</u>			
Appropriations	\$174,040 00	\$87,020 00	
Cash Expenditures	165,209 91	82,604 95	
Unexpended Balance	<u>\$8,830 09</u>	<u>\$4,415 05</u>	4,415 05
Increase of Cash Surplus Accounts			<u>\$17,103 18</u>

It was noted that on June 30, 1951 there were \$7,482.80 of unpaid encumbrances applicable to Appropriation Account #1003-03 Division of Law Enforcement - Conservation Officers all of which are carried as liabilities of the General Fund on the Comptroller's records. Since 50% of these liabilities are payable from the Inland Fisheries and Game Fund which also functions on the encumbrance system it would appear that the Surplus of that fund should be charged with one-half of whatever portion of the encumbered amount of \$7,482.80 is finally paid. It is understood that this adjustment will be made June 30, 1952.

The Inland Fisheries and Game Fund is not carried on the books of the Division.

## DEPARTMENT OF CONSERVATION

### GENERAL DEPARTMENT

REPORT No. 52-124

**Pay Rolls - Paid by the Department:** The previous audit report suggested that the Comptroller's Bureau be contacted relative to reviewing the present procedure of preparing the pay rolls as well as the methods employed in paying employees semi-monthly from an advance made by the State Treasurer. On June 12, 1952 the Commissioner received a letter from the Comptroller's Bureau stating that effective July 1, 1952 all employees of the Department will be paid monthly, directly by the State Treasurer. Those employees who are now paid on a semi-monthly basis will be eligible to obtain the customary advances on their monthly pay beginning with the month of July 1952, and the Department, therefore will not receive advance funds for pay roll purposes for the fiscal year 1953.

**Bond Positions:** At the present time there are only three employees bonded in the entire Department.

A comment in this regard has appeared in previous audit reports and each time it was suggested that all employees handling funds be bonded.

It was noted that a request has been made in the 1953 budget by the Division of Parks and Recreation for funds to meet the premium of a faithful performance and fidelity position schedule bond for employees in the recreation areas.

**Receiving Records:** Several previous audit reports stated in this respect:

"At present, the receiving records consist of the following - there is a so-called "Receivers Copy" for the State Purchase Bureau purchase orders, and for departmental purchase orders, which are signed by the person receiving the merchandise, but for N. P. O. purchases the receipt of the merchandise is indicated by the signature of the person receiving the goods on the invoice itself.

"It is recommended that the Comptroller's Bureau be requested to provide the standard duplicate copy receiving book, which should be used in all places where merchandise is received."

As this recommendation has not been adopted, attention is again called to it.

Farm Forestry Projects - Berkshire County - Account #1002-26, Farm Forestry Projects - Essex County - Account #1002-27: Appropriation Accounts #1002-26 and #1002-27 of the Division of Forestry, provide funds for the services and the expenses of a Farm Forester in each county, whose duties consist of furnishing technical services to private forest land owners, also to operators and processors of primary forest products in Berkshire and Essex Counties. In this connection no expenditures can be made from the appropriations until the respective counties pay the State Treasurer an amount equal to 25% of the appropriation as their share of the costs. In addition the Federal Government reimburses the Division for 50% of the expenditures which are made from the appropriations based on reports filed quarterly, with Federal authorities.

The status of these Appropriation Accounts on the date of audit follows:

	Item #1002-26	Item #1002-27
Appropriations - 1952 fiscal year	\$6,205 00	\$6,195 00
Expenditures - July 1, 1951 to May 19, 1952	\$4,293 94	\$4,563 45
Encumbrances	126 80	238 53
Unencumbered Balances - May 19, 1952	<u>1,784 26</u>	<u>1,393 02</u>
	<u>\$6,205 00</u>	<u>\$6,195 00</u>

It was noted that the assessments totaling \$2,905.00 which were due from Berkshire and Essex Counties as their share of the 1952 fiscal year's expenses were received during the audit period.

It was further noted that reimbursements from the Federal Government totaling \$4,068.35 representing 50% of the expenditures between July 1, 1951 and March 31, 1952 were received by the Division prior to May 19, 1952. The status of funds available for Federal reimbursement to this Division for the last quarter of the 1952 fiscal year follows:

Federal Allotments - 1952 fiscal year	\$5,450 00
Federal Reimbursements - first, second and third quarters	<u>4,068 35</u>
Federal Allotment Balance - May 19, 1952	<u>\$1,381 65</u>

Forestry - Wood Sales: The previous audit report suggested that a permanent inventory control be kept of all cut wood on hand. It also suggested that a control be maintained over the contracts for purchases of wood from the forests. In this connection it was noted that the Division has complied with these suggestions.

Parks and Recreation - Accounts Receivable: The Division has been unable to collect a balance of \$85.00 for a concession permit which was awarded on April 29, 1949 for the year 1950 which was in the original amount of \$125.00. No payment has been received since July 10, 1950 when \$40.00 was received.

It is again suggested that this account be entered on the general books as an account receivable and forwarded to the Attorney General for collection. It is also suggested that all unpaid overdue accounts be turned in to the main office of the Department to be recorded as accounts receivable.

Marine Fisheries: Applications for Weirs, Pond Nets or Fish Traps, - construction and maintenance which require the prior approval of Local Authorities, Department of Public Works and United States Army Engineers and applications for Bed Certificates as to the sanitary condition of certain tidal waters and flats are received at this Division. The applications carry no fee even though considerable detail work by the Division is necessary before issuance of permits. It is suggested that consideration be given to the advisability of charging a fee for these services.



## MASSACHUSETTS HOSPITAL SCHOOL

REPORT No. 52-125

**Delinquent Accounts Receivable:** Previous audit reports have commented on the many delinquent accounts which are carried in the active accounts receivable ledger. It was noted that this arrangement was changed during the current audit period. Charges totaling to \$9,451.67 were turned over to the Attorney General for collection and/or disposition. It was also noted that there is now a total of \$20,634.14 in this category in the hands of the Attorney General for collection. In this connection it was noted that only \$5.00 of the amount turned over to the Department of the Attorney General was collected during the current audit period.

## STATE PRISON

REPORT No. 52-126

**Maintenance Stores:** On the date of audit, a test inventory was taken of 76 items in the storeroom with a total book value of \$12,817.09. Variances were noted in 22 items and indicated aggregate shortages of \$120.12 and aggregate overages of \$19.29.

During this period it was noted that 98 inventory adjustments had been made, of which 30 were necessary on items other than food. While this situation shows some improvement over the conditions noted at the time of the previous audit, it is suggested that closer supervision over the requisition figures and postings to the stock ledgers will result in even better conditions.

**Surety Bonds:** It was noted that the chief clerk under the Maintenance Section and the senior bookkeeper in the Industries Section who each handle cash, are not bonded.

It is suggested that steps be taken to include these two employees with those that are presently bonded.

**Inmates per Capita Cost:** Based on the average population for the fiscal year ended June 30, 1951, the gross weekly per capita cost per inmate was \$26.16, a decrease of \$.40 over the previous fiscal year.

**Checks Signed in Blank:** It was noted that the suggestion in the previous audit report with respect to not pre-signing checks in blank, has been complied with, and no evidence was seen of this practice.

**Industries Showing Loss:** It was noted that the net operating loss for the 1951 fiscal year in the Underwear Department totaled \$10,551.12 as compared with a loss of \$9,757.63 in the previous year. It was explained that this loss was occasioned by low production because not enough inmates were assigned to run the machinery.

**Industries - Heat, Light and Power:** The present method of establishing the charges made by Maintenance for heat, light and power to Industries has been the subject of discussion in the past several audit reports. In this connection the Supervisor of Industries, stated that when the new prison at Norfolk is completed, provision will be made to properly identify and allocate these charges directly to each industry.

**Industries - Adjustments to Inventories:** Previous audit reports have recommended that all adjustments of raw materials and finished goods, should be entered in the general ledger control accounts as separate entries and not as additions to purchases or issues. As this suggestion has not been adopted, attention is again called to it.

**Industries - Selling Prices Less than Cost:** A comparison on a test basis of cost and selling prices indicates that in certain items of underwear the selling price was less than that item's cost as indicated by the record. In this connection there is no question that increased production would reduce unit costs.

**Unfilled and Incomplete Sales Orders:** A review of the unfilled orders on hand was made and it would seem that they were reasonable in quantity.

**Canteen Fund:** The expenditures for the benefit of inmates were analyzed for the audit period as follows:

## Moving Pictures:

Operation, Repairs, Film and Related Items  
Musical Instruments and Supplies

\$ 504 32  
75 31

## Holiday Items:

Ice Cream	\$876 45	
Cake, Pastry, Etc.	573 60	\$1,450 05
Sports Equipment		213 09
Periodicals for Library		343 25
Electrical and Radio Supplies and Repairs		232 46
Refrigerator Repairs		125 00
Printing		9 03
Miscellaneous		13 75
		<u>\$2,966 26</u>

Catalogue of Prices: It was noted that the Department of Correction issued in September 1951 a catalogue of Articles and Materials produced at its various penal institutions.

## SCHOOL BUILDINGS ASSISTANCE COMMISSION

REPORT No. 52-128

Construction Grants: As of the date of audit, this Commission, in compliance with Chapter 645 of the Acts of 1948, as amended, has paid out \$2,191,769.66 to the cities and towns of the Commonwealth as financial assistance for the construction of school buildings. A total of \$3,000,000.00 has been appropriated by the General Court for this purpose. Grants by the Commonwealth in excess of \$11,200,000.00 have been approved for completed projects based upon construction costs in excess of \$35,000,000.00. In addition to the foregoing, it is estimated that new grants of over \$30,300,000.00 will be made on estimated costs of approximately \$95,700,000.00 for projects now in process of construction.

Although Section 8 of Chapter 645 of the Acts of 1948, as amended, provides that payments may be made upon an "estimated" approved cost of construction, it is the policy of the Commission not to make any payments until the determination of the "final" approved cost.

Financing: Most cities and towns issue bonds to finance construction of School Buildings. The grants made by the Commonwealth are paid in installments over the life of such bonds unless the project is financed to the extent of fifty per cent or less of the approved cost. In the latter case, the grant would be paid in five equal annual installments.

Grants to Cities and Towns: There appears to be no record in the minutes of the meetings of the notes pertaining to the approval of the estimated construction cost or grants to the cities and towns.

The first time that a signed approval of the Commission appears is when the project is completed. This is usually one and a half to two years after the estimated construction grant is indicated.

This matter was discussed with the Administrator of the Commission and it is understood that the procedure will be changed to include a record of the authorization officially voted by the Commission on estimated construction costs and grants.

Computation of Rates for State Aid: The computation of the rate for State aid to the various cities and towns is set forth by Chapter 645, Section 9 of the Acts of 1948, which states in part as follows:

"The total construction grant for any approved school project in any city or town shall be one fourth of the product of the final approved cost of the project multiplied by the equalized valuation per pupil in net average membership for the entire commonwealth divided by the equalized valuation per pupil in net average membership of the city or town; provided, however, that no grant shall be approved for an amount less than twenty per cent or more than fifty per cent of such approved cost.

"The total construction grant for any approved school project in any regional school district shall be one third of the product of the final approved cost of the project multiplied by the equalized valuation per pupil in net average membership for the entire commonwealth divided by the total equalized valuation per pupil in the total net average membership of the towns comprising such district; provided, however, that no grant shall be approved for any amount less than thirty-five per cent or more than sixty-five per cent of such approved cost."



To date no grants have been made available for regional schools.

## STATE BOARD OF RETIREMENT

REPORT No. 52-129

**General:** The audit reports for the past four years have indicated in great detail the reason for the impossibility of making a complete audit of the Board. As was indicated earlier in this report the same situation persists. Verification of the financial transactions could not be completed and the balancing of the several control groups with the special and general ledger controls could not be accomplished for the 1950 and 1951 calendar years. A trial balance of the general ledger for 1951 was taken but the accounts therein still require bookkeeping adjustments before closing.

Although three bookkeeping machines have been installed ostensibly to facilitate the pay roll posting to the individual members' accounts this result has not yet been achieved. The 1950 postings still are not completed and the 1951 postings have not even been started. A limited test check was attempted of the 1950 pay roll deductions, yet the subsidiary cards could not be easily located in all cases and of those that were found it was not possible to trace the deductions that are recorded on the summary adding machine tapes. This was caused by not having the sorting and tabulation of all card balances completed as of the audit date.

Not all members of the State Retirement System have received their annual statement for the year 1950. The 1951 statements have not been prepared at all due to the fact that no entries have yet been made on the members' cards.

Trial balances of the subsidiary ledgers could not be completed for the same reason.

Because the secretary's report had not been completed for the 1951 year, the financial data which such a report normally contains could not be checked.

Certain informative statements showing the changes in the various funds and accounts for the year and their status at the end of the year could not be prepared, because the necessary data to complete postings to the general ledger was not available at the time of audit. The various analyses of members' accounts could not be made for the reasons indicated heretofore.

In view of the foregoing it is urged that the Commission on Administration and Finance take whatever steps are necessary in order to bring the accounts of this Board to a current basis. To permit after three years a continuation of the prevalent conditions is a positive reflection on the entire accounting and financial structure of the Commonwealth.

**Cash Balance:** It was noted that the cash balance as of January 1, 1951, as indicated by the records, did not reflect the actual cash position. It was explained that a delay in posting to the cash book had been occasioned because payment schedules had to be analyzed for statistical purposes, before they could be posted. The necessary cash book entries were therefore not made until at least five months after the transactions occurred, and the entries which should have been made in November and December of 1950 involving \$77,830.35 were not made until May 1951. During this period the books of the State Retirement Board did not reflect its true cash position, and were of course, understated in the amount indicated.

A delay in posting of this nature is not warranted, and immediate entries should be made for all cash transactions. It is also suggested that journal entries reflecting the statistical information can be prepared at subsequent times.

**Return of Overpayment:** It was noted that on February 7, 1951 a refund was made to a member in the amount of \$2,156.70 which included an overpayment of \$119.59. The refund of this overpayment was deposited on February 11, 1952. In this connection, the records indicated that this amount was returned as of December 31, 1951. This misrepresentation is contrary to good accounting practice, and no entry should be made for items of this nature until such time as they actually develop.

**Reinstatement of Former Member:** Subsection 6 (c) of Section 3 of Chapter 658 of the Acts of 1945 states as follows:

"Any former member who is reinstated to or who re-enters the active service of the governmental unit in which he was formerly employed to serve in a position which is subject to the provisions of sections one to twenty-eight inclusive, within two years from the date of his last separation therefrom, shall again become a member in service if under the maximum age for his group and shall pay into the annuity savings fund of the system in one sum a make-up payment of an amount

equal to the accumulated regular deductions withdrawn by him, together with regular interest to the date of his re-employment. Upon making such make-up payment such member shall be entitled to all creditable service resulting from his previous employment. No such person shall become so re-employed within such two-year period unless such repayment shall be made upon such re-employment."

In this connection it was noted that the cash on hand included \$80.00 which had been sent in by a former member who was re-employed by the Commonwealth. This amount however, represented only a part payment of the total which should have been returned by this member. Inasmuch as the foregoing statute specifically states that a former member who re-enters the service within a two-year period, must pay "in one sum" the accumulated deductions withdrawn by him, it is obvious that this statute has not been complied with. It is suggested that the necessary steps be taken to correct this situation.

**Variance Between Pay Roll Deduction and Cash Received:** During the annual audit of the accounts of the Division of Employment Security it developed that although \$27,701.61 was deducted for the State Board of Retirement from the pay roll for September 1951, a check for only \$22,207.50 had been transmitted. At a later date the Division of Employment Security advised the Board of Retirement of the error and a check for \$5,494.11, representing the balance due, was remitted.

This transaction is mentioned only as an indication of the type of error which it is impossible for the Board to immediately discover and rectify. It is quite possible that because of the tardiness of the postings made to the subsidiary accounts, this might not have been discovered for a year or more. It is suggested that the checks received from other departments and institutions for the Retirement Fund be immediately compared on receipt with the total of the deductions indicated on the pay rolls.

**Refunds:** Attention is called to the fact that there were on May 26, 1952 a total of 288 applications for refunds which had not yet been processed. These were aged as follows:

<u>Period</u>	<u>Number of Applications</u>
January - May, inclusive 1952	235
January - June, inclusive 1951	23
June - December, inclusive 1951	21
October - December, inclusive 1950	9
	<u>288</u>

In addition there were also on hand approximately 70 applications for refunds which had been partially processed. These still require posting of individual interest credits, and must also be scheduled for payment to the individuals concerned. It is also mentioned in this connection that the number of unprocessed refund applications has been considerably reduced since the prior audit when approximately 800 applications were noted in the files as being in this category.

**Pensions to Former Employees:** It was noted that payments were made to certain former state employees who were later employed by cities and towns in the Commonwealth and are then retired and which represent the States' share of the pension payment. Although the payments were made during the 1951 year, no entries have as yet been made on the records. The Secretary explained that these items are not recorded until the end of the calendar year when the accounts are reconciled with the Comptroller's records. This arrangement does not permit the correct balance to be shown upon the books for almost the entire year. It is recommended that all expenditures from the pension fund be recorded in the books of accounts as they occur.

**Accounts Receivable:** It was again noted that outstanding accounts receivable in the amount of \$160.27 have remained unpaid since December 31, 1948. It is recommended that this item be entered in a suspense account and be turned over to the Department of the Attorney General for collection or disposition.

**Financial Statements:** Subsection 5h of Section 20 of Chapter 658 of the Acts of 1945 states as follows:



"Each board shall annually, on or before March first, file in the office of the commissioner of insurance the financial statement of the system which is required by the provision of paragraph (1) (c) or (2) (e) of section twenty-three."

Subsection (5) (i) states as follows:

"Each board shall prepare annually a report showing the financial condition of the system as of December thirty-first of the previous year and showing the financial transactions thereof during the previous year."

As of the audit date, May 26, 1952, no such reports were completed. It is recommended that an attempt be made to have the financial report prepared on March first in accordance with the terms of the statute.

#### INDUSTRIAL SCHOOL FOR BOYS

REPORT No. 52-130

Reconciliation of Bank Accounts - Old Outstanding Checks: In connection with reconciling the various bank accounts on date of audit, it was noted that there were certain checks which had been outstanding for a considerable period of time as follows:

<u>Name of Account</u>	<u>Date</u>	<u>Check Number</u>	<u>Amount</u>
Pay Roll:			
Unclaimed Checks:	July 27, 1946	70716	\$15 32
	Aug. 5, 1946	70867	1 12
	Aug. 5, 1946	70885	2 24
	Oct. 11, 1947	75885	17 18
Unpaid Checks:	Oct. 2, 1948	80352	17 18
	Sept. 10, 1949	84606	1 38
	Feb. 4, 1950	86636	34 07
Bond Fund Deposits:			
Unpaid Check:	May 26, 1947	58	02
Escrow Retirement Fund:			
Unclaimed Checks:	Mar. 23, 1948	4	7 20
	Oct. 18, 1948	21	3 22

It is recommended that the unpaid pay roll checks be handled in the manner prescribed by the Comptroller's Bureau Accounting Manual. It was also understood that the Comptroller's advice will be sought in order to dispose of the checks in the other categories.

#### INDUSTRIAL SCHOOL FOR GIRLS

REPORT No. 52-131

Farm Records: The previous audit report commented in some detail with respect to the condition of the 1949 and 1950 annual farm reports together with their supporting detail. At this time, it was noted that there was no farm report whatsoever prepared for the 1951 farm year, probably because the farm activities had been curtailed during that year.

It was noted that the individual who formerly functioned as the head farmer at this institution was transferred to the pay roll of the Lyman School for Boys in the same capacity in August 1950. To the present date he has remained on the pay roll of the latter institution although it was learned that he returned to this School in May 1951 and remained until the end of the harvesting season in November 1951. During this period three other former farm employees of this School who were transferred with him to the Lyman School returned with him, although they too remained on the pay roll of the Lyman School.

Attention is further called to the fact that one employee who still appears on the farm pay roll at the Lyman School is presently working on the farm at this institution.

Apparently it is planned to have this individual conduct the 1952 farm program at this institution with the assistance of a school teacher and certain inmates.

It was further noted that the farm ledger was discontinued on June 30, 1951. Daily reports of farm production are however being continued and were being currently posted to the stock ledger.

Attention is also called, as a matter of information, to the fact that the hay production

which utilizes a large part of the farm acreage of this School is being handled by the State Infirmary at Tewksbury under the direct supervision of employees of that institution.

**Materials and Supplies:** A test inventory which was taken on the date of audit, of seventy-four items indicated variances, either overages or shortages, in sixty-four accounts when compared with the balances appearing in the stock ledgers.

On checking, it was noted that these variances were generally due, especially in the cases of the greater overages and shortages, to errors in posting of invoices, requisitions etc.

It was learned in this connection that no periodic inventories had been taken for one year by the institution employees, as is required by the Comptroller's Bureau, consequently the various accounts had not been adjusted during that period.

It is therefore recommended that more care be exercised by the bookkeeping office in the posting of invoices and requisitions to the stock ledgers. A complete physical inventory should be taken so that all the accounts may be brought into actual agreement after adjustment with the physical inventory so taken. Henceforth, providing periodic inventories are taken and adjusted with the stock ledgers, any variances due to posting or otherwise may be traced easier and corrections or adjustments made so that the stock ledger accounts will always reflect the true condition of the storeroom items.

**Reconciliation of Pay Roll Bank Account:** In reconciling this account it was necessary to consider the amount of \$22.91 in order to effect a reconciliation. Since it has been necessary to use this amount in order to reconcile this account for the past several years it is recommended that the Comptroller's Bureau review the matter and suggest the necessary procedure to correct the situation.

It was also noted that there were four checks which had been issued between 1944 and 1950 and were still outstanding. It is suggested that they be disposed of in conformance with the suggestion appearing in the Comptroller's Bureau Accounting Manual.

**Special Appropriations - Old Encumbrances:** It was noted that there were still open on the ledger accounts, balances for two special appropriations, Power Plant which expired on June 30, 1949, and Electric Wiring which expired on June 15, 1950. These appropriations were encumbered for \$667.49 and \$500.00 respectively. Apparently these encumbrances will never be liquidated so it is suggested that the Comptroller's Bureau be requested to review their status.

## SOLDIERS' HOME IN HOLYOKE

REPORT No. 52-132

**Accounting Procedures:** It is suggested that the Treasurer and other employees to whom it applies familiarize themselves with the essentials in the Accounting Manual issued by the Comptroller's Bureau. It is further suggested that the Comptroller's Bureau provide the necessary assistance to this institution so that its financial records will be properly organized and maintained.

**Bonding:** It is recommended that the present bond of the Treasurer be changed to the "position" type.

**Materials and Supplies:** An inventory of Materials and Supplies in the institution storerooms could not be taken in connection with this audit because the proper bookkeeping control records have not yet been installed. It is suggested that a representative of the Comptroller's Bureau be available on June 30, 1951 to assist the institution personnel in taking a physical inventory of all materials and supplies on hand and also to give the necessary instructions to those concerned in the proper handling of the accounts.

**Scheduling of Invoices:** All schedules for payment of invoices sent to the Comptroller's Bureau for payment are approved by at least four members of the Board of Trustees. This procedure which is authorized by the Board of Trustees as indicated in the minutes of its meetings has caused some delay in the payment of invoices and has on occasion been the cause of cash discounts being lost. It is suggested that consideration be given to an arrangement which will expedite the process of approving bills for payment.



## MASSACHUSETTS MARITIME ACADEMY

REPORT No. 52-133

STATE ACCOUNTS

**CASH OVERAGE:** In balancing the cash an overage of \$70.83 was noted in the Contingent Account. This overage could not be identified and obviously indicates some laxness in the handling of the cash. It is suggested that the cash accounts should be balanced and reconciled on a regular basis so that discrepancies such as this will be promptly corrected.

**ACCOUNTS RECEIVABLE:** It is the practice at this Academy to charge the accounts receivable account only when the income cash has been collected. On the date of this audit charges for rations and out-of-state midshipmen totaling \$11,983.65, for the months of February, March and April 1952, which had not yet been collected had not been entered. This practice, which is not in accordance with State accounting procedure should be discontinued and all income charges should be entered as they are accrued.

**LETTER OF CREDIT FOR CRUISE:** While on the annual cruise, the Academy paid bank charges of 10% on drafts drawn on a Boston Bank totaling \$17,000.00. It would seem that some arrangement could be made to provide sufficient cash and the necessary physical safeguards so that there would be a resultant savings to the Commonwealth.

**MIDSHIPMEN'S BOARD:** There is no charge made as such by the Academy for board. The Academy is, however, reimbursed by the United States Government for rations for 150 midshipmen at the rate of seventy-five cents per day. The midshipmen in excess of 150 and the so-called Nautical Cadets (students who cannot qualify physically for the United States Naval Reserve) pay no board, consequently, the expense of their board is borne entirely by the Commonwealth. It is suggested that the Board of Commissioners give this matter serious consideration.

NON-STATE ACCOUNTS

**CLOTHING INVENTORY:** An inventory of the clothing on hand, which was valued at \$6,054.85 was taken on May 19, 1952. This inventory indicated a shortage of \$173.52, which is equivalent to .42% on sales. A reconciliation with the Control Account in the ledger, however, was not possible because the book inventory balance could not be determined with any degree of accuracy. The physical inventory was however, compared with the stock cards for individual items maintained in the Steward's Office and was found to be in agreement.

It was learned that this clothing inventory is taken by Academy personnel approximately twice a year. It is suggested that it be taken at least quarterly so that it might be properly reconciled and adjusted to the Control Account in the general ledger.

**MIDSHIPMEN'S CLOTHING DEPOSITS:** A difference of \$18.95 was noted between the total of the individual Midshipmen's Clothing Accounts and the Control Account maintained in the general ledger. More determined efforts should be made to keep these records in constant reconciliation.

**STUDENTS' ADVANCE DEPOSITS:** It was noted that the unexplained cash overage of \$53.26 between the Midshipmen's Subsidiary Ledger and the Ledger Fund Account, which was commented upon in the previous audit report, was transferred to the Welfare and Social Fund.

**NON-STATE ACCOUNTING RECORDS:** The Non-State Accounting Records, especially the Clothing Accounts, are not in a satisfactory condition. Several errors and many instances of untidy bookkeeping, resulted in extending the time normally necessary to complete this examination. It is recommended that the assistance of the Comptroller's Bureau be invited so that procedures may be outlined for properly maintaining all of these accounts.

## BOARD OF STATE EXAMINERS OF PLUMBERS

REPORT No. 52-136

**Examinations:** It was noted that pending applications for examination on hand included 10 which were made prior to the 1948 fiscal year. It is suggested that the status of these inactive pending applications be reviewed.

**BOARD OF REGISTRATION OF PROFESSIONAL  
ENGINEERS AND LAND SURVEYORS**

REPORT No. 52-138

**Bonds:** It was noted that the clerk who generally handles cash received over the counter is not bonded.

It is recommended that steps be taken to arrange her bonding.

**Receipt Book for Initial Fees:** It was noted that one receipt book of card numbers 5951 to 6000 inclusive, was missing and was not available for use in connection with this examination.

**BOARD OF REGISTRATION IN CHIROPODY (PODIATRY)**

REPORT No. 52-139

**Registration of Certain Applicants:** In this connection the previous audit report stated:

"It was noted that during the audit period thirty-five applicants passed the examination but were not registered because of the fact that they did not fulfill the requirements of Chapter 557 of the Acts of 1948, i. e., complete a four year course in Chiropody in a school approved by the board."

It was noted that certificates were awarded to these applicants during the current audit period under authority of Chapter 767 of the Acts of 1951, which reads as follows:

"The provisions of section sixteen of chapter one hundred and twelve of the General Laws, as existing immediately prior to September ninth, nineteen hundred and forty-eight, shall continue to govern as to the eligibility of any applicant for registration as a chiropodist who graduated on June tenth in the current year from a school of chiropody (podiatry) which was a school approved by the Board of registration in chiropody (podiatry) at the time of his matriculation thereat."

**BOARD OF REGISTRATION OF CERTIFIED PUBLIC  
ACCOUNTANTS**

REPORT No. 52-140

**Departmental Records:** Practically all financial records of this board originate in the private office of the Secretary of the Board. The cash book and cash receipts are still handled personally by the Secretary. It was again noted that the Secretary is not bonded by the Commonwealth nor are any of those individuals who handle this agency's receipts.

**Cash Book:** Attention is directed to the fact that the financial activities of this Board are reflected in the standard columnar cash book. This book which has been in use for the past several years includes the transactions of both income receipts and appropriation disbursements. However, even though the volume of transactions has increased considerably during these years, no attempt has been made to modify or modernize this outmoded folio. It is, therefore, suggested that the Comptroller's Bureau furnish this agency with the necessary assistance so that the transactions may be more adequately reflected.

**Minute Book:** At the present time it is personally incumbent on the Secretary of the Board to write and maintain records of its meetings. In this connection, it was noted that this work has not been currently maintained.



## STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947, is hereby repealed."

During the complete fiscal year ending June 30, 1952 the terms of the Act were fully complied with and every active local Authority, in a total of 90, was audited and a report issued.

In addition, fifteen other local Authorities were visited and were found to be inactive during the fiscal year and therefore required no audit.

Comments: An examination of the comments included in this report which relate to individual audits of local housing authorities will clearly indicate in many instances that the State Housing Board has been overzealous in creating excessive financial reserves within the local housing authorities.

Most local projects when placed under Permanent Financing, and after including in their receipts the  $2\frac{1}{2}\%$  subsidy received from the Commonwealth, have operated at a profit, and this profit exists after normal reserves have been provided. It is the contention of this Department that all of the profit thus accruing should be used by the local authority either to reduce their rents or the full amount should be used to reduce the Commonwealth's subsidy in the ensuing year. In practically every instance where such profits have accrued, the State Housing Board has ordered additional reserves to be created which are obviously in excess of such needs. Such reserves are built up, therefore, at the expense of the Commonwealth or the tenants, or both.

It is the suggestion of this Department that all such profits accruing to a local housing authority should be used either to reduce rents or the State's subsidy of the following year.

Legislative Recommendations: As of July 1, 1952, 83 local housing projects had been placed in Permanent Financing with bond issues totaling \$72,026,000.00. All of these issues mature over a period of forty years, and interest rates vary between  $1\frac{7}{8}\%$  and  $2\frac{1}{4}\%$ . Attention is again directed to the fact that the rate of interest being paid on housing authority bonds is between  $1\frac{1}{2}\%$  and  $1\%$  higher than similar borrowings of the Commonwealth.

For the past several years, audit reports issued by this Department have continually recommended that in such financing the superior credit of the Commonwealth should be employed to its fullest extent. At the present time, housing bonds are issued in the names of the various local housing authorities, and although they are guaranteed both as to interest and principal by the Commonwealth, bids on these issues have carried a higher rate than normal for Commonwealth borrowings. Recommendations of this Department in this matter have been continually ignored, and attention is directed to the fact that early in December 1952 bonds amounting to \$8,270,000.00 were offered by five local housing authorities. The notice of sale of these issues specifically stated the interest should not exceed  $2\frac{1}{2}\%$  per annum. This is an entirely reasonable limit to place on such issues, and yet because of this limitation, no purchasers took up the offering. It now appears that

housing financing must be maintained on a temporary basis. This Department does not consider this to be an entirely undesirable procedure, but attention is directed to the fact that had the recommendations of this Department been adopted, these bonds could have been attractive to private investors, despite the  $2\frac{1}{2}\%$  limit, and sale of them would have been consummated.

It is again recommended that the present statutes be amended to provide that housing bonds shall be issued directly by the Commonwealth, and that the Commonwealth will in turn loan the money thus borrowed to the local housing authorities at the same interest rate that the Commonwealth itself will pay.

General: Individual copies of audit reports for the State Housing Board and all local Housing Authorities have been submitted to his Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of local Housing Authorities.



Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED ----- FISCAL YEAR 1951-1952

	From	To	Report No.
LOCAL HOUSING AUTHORITIES:			
Agawam	June 30, 1950	June 30, 1951	52-H-5
Amesbury	June 30, 1950	Oct. 31, 1951	52-H-24
Andover	July 1, 1950	July 31, 1951	52-H-10
Arlington	Feb. 1, 1951	Feb. 29, 1952	52-H-47
Athol	Mar. 31, 1951	Feb. 29, 1952	52-H-60
Attleboro	June 30, 1950	Aug. 31, 1951	52-H-6
Barnstable	May 31, 1951	Apr. 30, 1952	52-H-84
Bedford	July 31, 1950	June 30, 1951	52-H-1
Belmont	Mar. 31, 1951	Apr. 30, 1952	52-H-73
Beverly	June 30, 1950	June 30, 1951	52-H-3
Boston	Jan. 1, 1951	Apr. 30, 1952	52-H-85
Braintree	July 31, 1950	Jan. 31, 1952	52-H-44
Brockton	Nov. 1, 1950	Oct. 31, 1951	52-H-27
Brookline	Mar. 31, 1951	Feb. 29, 1952	52-H-58
Cambridge	Nov. 1, 1950	June 30, 1951	52-H-2
Canton	Aug. 31, 1950	Feb. 29, 1952	52-H-57
Chelsea	Sept. 1, 1950	Sept. 30, 1951	52-H-18
Chicopee	Apr. 30, 1951	Mar. 31, 1952	52-H-63
Clinton	June 30, 1950	Aug. 31, 1951	52-H-13
Dalton	Apr. 30, 1951	Feb. 29, 1952	52-H-53
Dedham	Sept. 30, 1950	Jan. 31, 1952	52-H-43
Easthampton	May 31, 1951	May 31, 1952	52-H-88
Everett	Dec. 1, 1950	Oct. 31, 1951	52-H-26
Fall River	Jan. 1, 1951	Jan. 31, 1952	52-H-42
Falmouth	June 1, 1951	May 31, 1952	52-H-86
Fitchburg	June 30, 1950	June 30, 1951	52-H-4
Frammingham	Dec. 31, 1950	Jan. 31, 1952	52-H-41
Franklin	Apr. 30, 1951	Apr. 30, 1952	52-H-76
Gardner	Apr. 30, 1951	Apr. 30, 1952	52-H-77
Gloucester	Oct. 31, 1950	Sept. 30, 1951	52-H-19
Grafton	June 30, 1950	July 31, 1951	52-H-8
Greenfield	Mar. 31, 1951	Dec. 31, 1951	52-H-52
Haverhill	Aug. 1, 1950	Dec. 31, 1951	52-H-32
Holyoke	Apr. 30, 1951	Apr. 30, 1952	52-H-80
Hull	Aug. 31, 1950	Mar. 31, 1952	52-H-66
Ipswich	Sept. 30, 1950	Feb. 29, 1952	52-H-61
Lawrence	Jan. 1, 1951	Jan. 31, 1952	52-H-40
Leominster	Feb. 28, 1951	Feb. 29, 1952	52-H-55
Lowell	Apr. 30, 1951	Mar. 31, 1952	52-H-68
Lynn	Mar. 31, 1951	May 31, 1952	52-H-89
Malden	Feb. 28, 1951	Mar. 31, 1952	52-H-64
Mansfield	Apr. 30, 1951	Apr. 30, 1952	52-H-79
Marblehead	Apr. 1, 1951	Dec. 31, 1951	52-H-37
Mattapoisett	Jan. 31, 1951	Mar. 31, 1952	52-H-72
Medford	Apr. 1, 1951	Feb. 29, 1952	52-H-50
Methuen	Oct. 1, 1950	Feb. 29, 1952	52-H-46
Middleborough	Oct. 1, 1950	Sept. 30, 1951	52-H-16
Millford	July 31, 1950	Sept. 30, 1951	52-H-20
Millbury	Mar. 31, 1951	Mar. 31, 1952	52-H-67
Montague	Dec. 31, 1950	Nov. 30, 1951	52-H-31
Nahant	Apr. 1, 1951	Mar. 31, 1952	52-H-75
Nantucket	Aug. 1, 1950	Sept. 30, 1951	52-H-17
Natick	Aug. 31, 1950	July 31, 1951	52-H-11
Needham	Aug. 31, 1950	Mar. 31, 1952	52-H-71
New Bedford	Mar. 31, 1951	Mar. 31, 1952	52-H-65
Newburyport	Feb. 28, 1951	Apr. 30, 1952	52-H-81
North Adams	Mar. 31, 1951	Jan. 31, 1952	52-H-39
Northampton	Feb. 28, 1951	Nov. 30, 1951	52-H-38
North Andover	Oct. 31, 1950	Mar. 31, 1952	52-H-69
North Attleborough	Apr. 30, 1951	May 31, 1952	52-H-90
Northbridge	Jan. 31, 1951	Mar. 31, 1952	52-H-54
Norwood	Aug. 31, 1950	Apr. 30, 1952	52-H-83
Peabody	July 31, 1950	Nov. 30, 1951	52-H-30
Pittsfield	Mar. 31, 1951	Jan. 31, 1952	52-H-45
Plymouth	May 1, 1951	Apr. 30, 1952	52-H-78
Quincy	June 30, 1950	Aug. 31, 1951	52-H-14
Revere	June 30, 1950	Aug. 31, 1951	52-H-15

	From	To	Report No.
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## LOCAL HOUSING AUTHORITIES:

(Continued):

Rockport	Sept. 30, 1950	Mar. 31, 1952	52-H-70
Salem	Oct. 1, 1950	Dec. 31, 1951	52-H-39
Somerville	Jan. 1, 1951	Nov. 30, 1951	52-H-29
Springfield	June 30, 1950	Aug. 31, 1951	52-H-12
State Housing Board	July 24, 1950	July 31, 1951	52-H-7
Stoneham	July 31, 1950	Oct. 31, 1951	52-H-25
Stoughton	Sept. 1, 1950	Sept. 30, 1951	52-H-21
Swampscott	July 31, 1950	Oct. 31, 1951	52-H-23
Taunton	Dec. 1, 1950	Dec. 31, 1951	52-H-33
Uxbridge	Jan. 31, 1951	Feb. 29, 1952	52-H-51
Walpole	July 31, 1950	Oct. 31, 1951	52-H-22
Waltham	Feb. 28, 1951	Feb. 29, 1952	52-H-56
Watertown	Feb. 28, 1951	Apr. 30, 1952	52-H-82
Webster	Mar. 31, 1951	Mar. 31, 1952	52-H-74
Wellesley	July 31, 1950	Dec. 31, 1952	52-H-34
Westborough	Feb. 28, 1951	Mar. 31, 1952	52-H-59
Westfield	Apr. 30, 1951	May 31, 1952	52-H-87
West Springfield	July 31, 1951	July 31, 1952	52-H-9
Weymouth	Aug. 31, 1950	Feb. 29, 1952	52-H-49
Wilmington	July 10, 1951	Mar. 31, 1952	52-H-62
Winthrop	July 31, 1950	Dec. 31, 1951	52-H-35
Woburn	Feb. 1, 1951	Jan. 31, 1952	52-H-48
Worcester	Sept. 30, 1950	Nov. 30, 1951	52-H-28

The following comments, exceptions and recommendations were included in the reports issued in connection with these examinations.



## BEDFORD HOUSING AUTHORITY

REPORT No. 52-H-1

**Development Costs:** It was noted that although this project was originally planned to cost \$125,000.00 with a unit cost of \$10,417.00, it now appears that the actual final cost is apparently \$127,000.00 with a unit cost of \$10,583.00.

**Permanent Financing:** The Initial Operating Period of Project 200-1 ended on December 31, 1950 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that bonds issued at an interest rate of 1 3/4% with a premium of \$2,015.00, were in the aggregate amount of \$127,000.00.

**Annual Report:** Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. No such report for the calendar year 1950 had been made to date of audit.

**Rent Receipt Book:** It was noted in checking the rent receipts to the cash book that rent receipts #94 and #97 were both issued to the same person for the same apartment and for the same period of time. On checking it was determined that Rent Receipt #94 was issued by the Executive Director and Rent Receipt #97 was issued by his wife who is not an employee of the Housing Authority. It was also noted that Rent Receipt #132 which had been voided could not be located.

**Reconciliation of Bank Account:** It was noted in the reconciliation of the bank accounts that the Development Fund was over in the amount of \$33.50 while the Administration Fund was short in a like amount. This was due to an error in the deposit of March 7, 1951. It was recommended that the necessary steps be taken to remedy this situation.

**Executive Director:** It was noted that the Executive Director is also a member of the Housing Authority which is in violation with the Contract for Financial Assistance and also Section 26 (O) of Chapter 121 of the General Laws.

**Inspection of Project:** It was noted that on four of the buildings upon which clapboards had been used, the white paint was peeling very badly.

## CAMBRIDGE HOUSING AUTHORITY

REPORT No. 52-H-2

**General - Report of Investigation by Private Accountant:** Prior to the period covered by this examination, a private accountant was engaged to survey and revise duties of the personnel and to set up a table of organization. It developed that this survey led to an intensive investigation of the purchasing policies and practices of the Authority.

The report submitted by the accountant was examined and appeared to deal primarily with the Federal projects under the supervision of the Authority. Some work was also done on the State-aided projects and consisted principally of testing the cash accounts, which is normally included in the scope of the annual audit made by the Department of the State Auditor.

The bill for this investigation, in the amount of \$1,504.00, was submitted to the Public Housing Administration which refused to permit Federal funds to be used in paying any part of this bill. According to a member of the Authority, the reason for this disallowance was predicated on the fact that the Public Housing Administration has available the necessary personnel for making a survey of this nature when in their opinion such steps become necessary.

These services are presumably also available to local housing authorities by the personnel of the State Housing Board. Yet when this bill was submitted to the State Housing Board for approval to pay a proportionate share of the original bill, it indicated: "Approval for charging a portion of this amount, based on number of units" was authorized. This approval is seriously questioned, and it is contended that the State Housing Board should have withheld approval on the same grounds as did the Federal Public Housing Administration.

An analysis of the distribution of the expense of this invoice further indicated that approximately two-thirds of it was charged to State projects on which the work performed was negligible and the balance was paid with funds of Project VN 19100 which at the time of payment was owned by the City. This proration is definitely inequitable and indefensible.

**General - Books of Account:** Attention is called to the fact that the accounting system in operation at this Authority is not entirely in conformance with that suggested in the manual issued by the State Housing Board. Among the instances noted were the following:

**Revolving Cash Fund:** In this connection it was noted that a Revolving Fund was set up by advances from the several State and Federal projects to simplify the payment of invoices that affect more than one project. This fund, however, was frequently used to pay for invoices of only one project, which should, obviously, have been paid for from the funds of a particular project.

It was further noted that the Development and Administration cash accounts in the various projects also function occasionally as Revolving Funds, that is, these funds are also being used to pay for invoices that affect other projects. In some instances, the funds of one project are used to pay for an invoice that pertains to another project. This practice is in violation of the Contract for Financial Assistance and also necessitates adjusting journal entries involving contra accounts receivable and accounts payable. Additional entries also become necessary on the accounts of the reimbursing project and also increases the number of checks that are absolutely necessary to be drawn.

It also appears that this practice has increased since the previous audit, and it is suggested that steps be taken in the interests of good accounting procedure to correct the present arrangement.

It was further noted that a great deal of time often elapses before these contra accounts receivable and accounts payable are cleared. A few instances of duplicate reimbursements were noted. When these items were identified by the Authority personnel they were allowed to remain on the books as credit balances to accounts receivable. The amount of money reimbursed could not be reconciled with the amount that should have been reimbursed particularly in the Pay Roll and Revolving Fund accounts.

**Postings:** It was noted that postings frequently are made to expense accounts without regard for the proper accounts to which they should have been charged. It was also noted that cash book disbursements which appear as charges to the accounts payable account are posted in the general ledger to the accounts receivable account. Occasionally this posting process was reversed.

**Suggestions in Previous Audit Reports:** It has been recommended in previous audit reports that all change orders should be reflected in the books of account; that all other known liabilities be entered on the records; that only the Revolving Fund be used as such; that more accurate vacancy records be maintained; and that the bookkeeper-cashier be informed when tenants vacate premises. Attention is called to the fact that all of these have been completely disregarded.

This current audit was necessarily extended in its scope because of the fact that the Authority personnel failed in its responsibility for maintaining the accounting records in conformance with the system as suggested by the State Housing Board. In this connection the State Housing Board has issued two manuals, one for the development stage and the other for the management stage, to simplify and make uniform the books of account.

It is recommended very strongly that these manuals be studied and all transactions be entered in strict accordance with the instructions set forth, and that the various laws, contracts and procedures pertaining to veterans' housing also be studied by all concerned so that the books of account and policies of the Authority will be kept in conformance therewith.

**General - Architects' Contracts:** The architects' contracts on Project 200-1 through Project 200-6 were examined. In this connection certain items worthy of discussion follow:

**Project 200-1:** This contract was signed previous to the present standard architect's contract of the State Housing Board becoming effective. Under this contract the fee to the architect was to be computed as follows: "Six per cent (6%) of the cost of the work."

On this basis it would certainly seem that the "cost of the work" should include all change orders, either increases or decreases, on the entire construction contract. Although this project went into Permanent Financing on July 1, 1951, there are still many change orders where the amount has not been agreed upon. These change orders are due to reductions in the contract prices which were occasioned by decisions of a board of arbitration which the contractor is still unwilling to accept. Because of this, the final



construction cost, upon which the architect's fee should be computed cannot be determined.

In this connection it was also noted that the books of account did not reflect the amounts which the arbitrators decided as being the correct amount. On the basis decided by the arbitrators, the architect is owed \$159.67 instead of \$1,666.54. This larger amount was used in the computation of the final development cost and created an overcapitalization of approximately \$1,500.00.

Project 200-2: It was again noted that the necessary approval of the architect's contract by the State Housing Board was not obtained. However, subsequent to the audit date, a letter was received signed by the Chairman of the State Housing Board authorizing the final payment to the architect under this project.

Project 200-3: It was determined from an examination of the invoices submitted by the architect that his fee was based on the construction award plus change orders. As this contract is the standard contract prescribed by the State Housing Board, his fee should be based on the actual construction award.

In connection with this construction award, it was noted that subsequent to its award eight units were eliminated because of a soil condition. Although the Authority and the contractor have not yet agreed upon a definite amount as a contract reduction for the elimination of these units, the question is raised as to whether the architect's fee will be correspondingly decreased because of the contract which appears to be in effect.

Project 200-4: It appears that the architect is not basing his fee on the percentage indicated in his contract. This matter should be adjusted as quickly as possible.

Projects 200-5 and 200-6: The invoices submitted by the architects for these projects indicated that they were based on the wrong contract award amount. Furthermore the percentage of compensation appeared to be in disagreement with the terms of the respective contracts.

In further connection with these architects' fees, it was noted that in all cases the amounts submitted by the architects were accepted by the Authority without verification.

General - Insurance on Employees: It was noted that only five employees of the Authority were bonded. In this connection attention is called to the fact that there are more than five employees who handle rent collections in the central office. In addition rents are collected at the projects for Projects 200-2 and 200-4, where none of the employees are bonded.

It is understood that steps were taken subsequent to the date of audit to have all employees covered by the blanket type bond recommended by the State Housing Board.

It was also noted that the Money and Securities, and Inside and Outside Burglary and Robbery policy covered the former central office of the Authority and Project 200-3 where no rents are now collected. It was suggested that the necessary changes be made.

Because of the foregoing, it is suggested that the entire insurance program of the Authority be reviewed and that the necessary steps be taken to arrange sufficient coverage in all respects.

General - Insurance on Furniture and Fixtures: In conformance with a recommendation in the previous audit report, arrangements were made for fire insurance on furniture and fixtures. A policy in the amount of \$10,000.00 was written based on the estimated value of the assets. Since that time, office equipment of considerable value has been purchased and it is therefore recommended that an inventory of the furniture and fixtures be taken to ascertain the correct value of the equipment. The present insurance, taking into consideration present values, should be adjusted accordingly.

General - Insurance on Non-Ownership of Automobiles: In examining the insurance coverage it was noted that only two individuals, one of whom is no longer employed by the Authority, were covered for "Non-Owned Automobile" liability. As others employed by the Authority have occasion to use their cars on Authority's business, it is suggested that the Authority review this type of coverage to ascertain the advisability of additional coverage.

General - Furniture and Fixtures: In the two previous audit reports, it was recommended that the costs of office furniture and fixtures be prorated among the various State and Federal projects using them.

In further connection with the foregoing it was noted that the furniture purchased for the rest room in the central office at a cost of \$273.95 was entirely charged to State Project 200-5, obviously an incorrect charge.

It is therefore again suggested that only by prorating these charges among the various projects will more equitable distribution be available.

**General - Change Orders:** Attention was called in the two previous audit reports to the fact that additions and deductions from contracts occasioned by Change Orders were not reflected in the control account, "Contract Awards."

As there still has been no change in this procedure it is again suggested that steps be taken to correct the procedure.

**General - Purchasing Policy:** The purchasing policy of the Authority is incorporated in the Management Policy program authorized by the State Housing Board and was adopted by the Authority as indicated in the minutes of the meetings.

It was noted, however, that this policy is not being strictly followed. Attention is called to the fact that even though competitive bidding was ordered the bid of the lowest vendor was not accepted on office furniture and the reason advanced was that the furniture purchased "looked better." It was further noted that snow plows were purchased by the Authority for two different projects. Although in accordance with the Purchasing Policy prices should have been solicited by telephone and confirmed in writing, this procedure was not followed.

As the Purchasing Department will be one of the larger spenders in the Authority's organization, it is recommended that these purchasing policies be strictly adhered to so that a closer control over expenditures may be had, with the resultant economies in expenditures.

**General - Contract for Legal Service:** In conjunction with Part II of the Contract for Financial Assistance, it is required that State Housing Board Form #5, Contract for Legal Service, be executed and processed by the State Housing Board. It was noted, however, that no such contract for legal services was entered into by the Authority.

It is recommended that the Authority execute such a contract, in which should be stipulated the various rates of remuneration, and that the necessary approval be obtained from the Chairman of the State Housing Board.

**General - Cash Receipts and Disbursements:** When a new series of notes is issued and a disbursement is made to retire the old issue the cash book does not accurately reflect the entire series of transactions. A net entry is usually made in either the cash receipts books or the cash disbursements books.

It is recommended that the detail of the transactions be used on a new issue indicating the gross receipts in the cash receipts books and the retirement be handled in the cash disbursements books indicating the amount of notes retired together with the interest cost.

It was also noted that the Administration Cash Receipts books do not list the rent receipt numbers that cover deposits made. While these receipts are in a bound book and an adding machine tape is enclosed to show the detail of the receipts, it is suggested that its being entered in the cash book will make it a permanent record.

**General - Bonds and Notes Outstanding:** Attention is called to the fact that subsequent to the date of audit, July 1, 1951, bonds were issued under Permanent Financing for Project 200-1. It was noted, however, that the due date of the temporary notes issued during this audit period was July 31, 1951. Because of this, it is obvious that the Authority will pay 6% interest at the net rate of .8574% for one month on notes totaling \$940,000.00, while during the same period it is also paying 2 1/8% interest on \$911,000.00 in bonds.

The same situation applied on Project 200-2. In this instance notes in the amount of \$1,275,000.00 at an interest rate of .94% (net rate .936) matured May 1, 1951 and the bond issue under Permanent Financing was dated April 1, 1951 in the amount of \$1,292,000.00 at an interest rate of 1 7/8%.

It is suggested that the State Housing Board should effect a policy whereby the maturity date of the temporary notes would coincide with the date of issue of the permanent bonds so that double interest charges as indicated will not recur.



Rents - Project 200-1: The rents of this project are based on the following schedule:

Project 200-1

Rent Schedule - Woodrow Wilson Court

(Magazine Street)

<u>Less Than 3 Minors</u>			<u>Three or More Minors</u>		
<u>Rent</u>	<u>Income</u>		<u>Rent</u>	<u>Income</u>	
\$37 - Under	\$1960		\$40 - Under	\$2400	
39 - 1961	-	2080	42 - 2401	-	2520
41 - 2081	-	2200	44 - 2521	-	2640
43 - 2201	-	2320	46 - 2641	-	2760
45 - 2321	-	2440	48 - 2761	-	2880
47 - 2441	-	2560	50 - 2881	-	3000
49 - 2561	-	2680	52 - 3001	-	3120
51 - 2681	-	2800	54 - 3121	-	3240
Max. Limits for Admission			56 - 3241	-	3360
53 - 2801	-	2920	58 - 3361	-	3480
55 - 2921	-	3040	60 - 3481	-	3600
57 - 3041	-	3160	62 - 3601	-	3720
59 - 3161	-	3280	64 - 3721	-	3840
61 - 3281	-	3400	66 - 3841	-	3900
63 - 3401	-	3500			
Maximum Income Limits for Continued Occupancy					

In the above schedule, the minimum rentals for the various size units are as follows:

1 Bedroom	(3 Rooms)	-	\$37 00
2 Bedrooms	(4 Rooms)	-	39 00
3 Bedrooms	(5 Rooms)	-	40 00

For each additional \$120.00 to the annual income, the rent must be increased by \$2.00.

It will be noted from the foregoing that a tenant with less than three minors earning \$1,961.00 is paying a \$39.00 rental charge which is 23.86% of his income, while a tenant with the same number of dependents earning the maximum income limit of \$2,800.00 pays a \$51.00 rent which is only 21.85% of his income.

For this project the minimum monthly income requirements on account of rent that the Authority must achieve as set up by the State Housing Board is \$3,143.00 per month for an average of \$45.55 per unit. For the eight month period of this audit, it was noted that Dwelling Rent income averages \$3,357.89 per month, or \$48.66 per unit.

Rents - Project 200-2: The rents of this project are based on the following schedule:

Project 200-2

Rent Schedule - Jefferson Park

(Rindge Ave.)

<u>Less Than 3 Minors</u>			<u>Three and Four Minors</u>			<u>Five Minors</u>		<u>Six Minors</u>	
<u>Rent</u>	<u>Income</u>		<u>Rent</u>	<u>Income</u>		<u>Income</u>		<u>Income</u>	
\$37	Under	\$1960	\$40	Under	\$2400				
39	1961	- 2080	42	2401	- 2520	Under	\$2740	Under	\$2960
41	2081	- 2200	44	2521	- 2640	2741	- 2860	2961	- 3080
43	2201	- 2320	46	2641	- 2760	2861	- 2980	3081	- 3200
45	2321	- 2440	48	2761	- 2880	2981	- 3100	3201	- 3320
47	2441	- 2560	50	2881	- 3000	3101	- 3220	3321	- 3440
49	2561	- 2680	52	3001	- 3120	3221	- 3340	3441	- 3560
51	2681	- 2800	54	3121	- 3240	3341	- 3460	3561	- 3680

\$53	2801 - \$2920	\$56	3241 - \$3360	3461 - \$3580	3681 - \$3800
55	2921 - 3040 Maximum Limits	58	3361 - 3480	3581 - 3700	3801 - 3920
57	3041 - 3160 for Admission	60	3481 - 3600	3701 - 3820	3921 - 4040
59	3161 - 3280 Maximum Limits for Admission	62	3601 - 3720	3821 - 3940	4041 - 4160
61	3281 - 3400 Maximum Income	64	3721 - 3840	3941 - 4060	4161 - 4280
63	3401 - 3520 Limits for Con-	66	3841 - 3960	4061 - 4180	4281 - 4400
65	3521 - 3640 tinued Occupancy	68	3961 - 4080	4181 - 4300	4401 - 4520

In the above schedule the minimum rentals for the various size units are as follows:

1 Bedroom (3 Rooms)	\$37 00	Gas Consumption	\$3 44
2 Bedrooms (4 Rooms)	39 00	Gas Consumption	1 95
3 Bedrooms (5 Rooms)	40 00	Gas Consumption	2 08
4 Bedrooms (6 Rooms)	42 00	Gas Consumption	2 22

The minimum monthly income requirements on account of rent that the Authority must achieve as set up by the State Housing Board is \$4,894.00 per month or an average of \$44.90 per unit. For the eight month period covered by this audit, it was noted that the Dwelling Rent income averaged \$5,426.26 per month or \$49.78 per unit.

Rents - Project 200-3: The rents of this project are based on the following schedule:

Project 200-3

Rent Schedule - Lincoln Way

<u>Less Than 3 Minors</u>			<u>Three and Four Minors</u>		<u>Five Minors</u>	<u>Six Minors</u>
<u>Rent</u>	<u>Income</u>		<u>Rent</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
\$39	Under \$2080		\$40	Under \$2400		
41	2081 - 2200		42	2401 - 2520	Under \$2740	Under \$2960
43	2201 - 2320		44	2521 - 2640	2741 - 2860	2961 - 3080
45	2321 - 2440		46	2641 - 2760	2861 - 2980	3081 - 3200
47	2441 - 2560		48	2761 - 2880	2981 - 3100	3201 - 3320
49	2561 - 2680		50	2881 - 3000	3101 - 3220	3321 - 3440
51	2681 - 2800		52	3001 - 3120	3221 - 3340	3441 - 3560
53	2801 - 2920		54	3121 - 3240	3341 - 3460	3561 - 3680
55	2921 - 3040		56	3241 - 3360	3461 - 3580	3681 - 3800
57	3041 - 3160 Maximum Limits		58	3361 - 3480	3581 - 3700	3801 - 3920
59	3161 - 3280 for Admission		60	3481 - 3600	3701 - 3820	3921 - 4040
61	3281 - 3400		62	3601 - 3720	3821 - 3940	4041 - 4160
63	3401 - 3520		64	3721 - 3840	3941 - 4060	4161 - 4280
65	3521 - 3640*		66	3841 - 3960	4061 - 4180	4281 - 4400
			68	3961 - 4080*	4181 - 4300	4401 - 4520*

\* Maximum Income Limits for Continued Occupancy

In the above schedule the minimum rentals for the various size units are as follows:

2 Bedrooms (4 Rooms)	\$39 00 - Gas consumption	\$2 25 - 2935 cu. ft.
3 Bedrooms (5 Rooms)	40 00 - Gas consumption	2 50 - 3238 cu. ft.

The minimum monthly income requirements on account of rent that the Authority must achieve as set up by the State Housing Board is \$2,829.00 per month or an average of \$47.15 per unit. For the eight month period covered by this audit it was noted that the Dwelling Rent Income averaged \$3,153.06 per month or \$52.55 per month.



Rents - Project 200-4: The rents of this project are based on the following schedule:

Project 200-4

Rent Schedule - Roosevelt Towers

(Cambridge St.)

<u>Less than 3 Minors</u>			<u>Three and Four Minors</u>		<u>Five Minors</u>	<u>Six Minors</u>
<u>Rent</u>	<u>Income</u>		<u>Rent</u>	<u>Income</u>	<u>Income</u>	<u>Income</u>
\$37 Under \$1960			\$40 Under \$2400			
39 1961 - 2080			42 2401 - 2520		Under \$2740	Under \$2960
41 2081 - 2200			44 2521 - 2640		2741 - 2860	2961 - 3080
43 2201 - 2320			46 2641 - 2760		2861 - 2980	3081 - 3200
45 2321 - 2440			48 2761 - 2880		2981 - 3100	3201 - 3320
47 2441 - 2560			50 2881 - 3000		3101 - 3220	3321 - 3440
49 2561 - 2680			52 3001 - 3120		3221 - 3340	3441 - 3560
51 2681 - 2800			54 3121 - 3240		3341 - 3460	3561 - 3680
53 2801 - 2920			56 3241 - 3360		3461 - 3580	3681 - 3800
55 2921 - 3040	Maximum Limits		58 3361 - 3480		3581 - 3700	3801 - 3920
57 3041 - 3160	for Admission		60 3481 - 3600		3701 - 3820	3921 - 4040
59 3161 - 3280	Maximum Limits for Admission					
			62 3601 - 3720		3821 - 3940	4041 - 4160
61 3281 - 3400			64 3721 - 3840		3941 - 4060	4161 - 4280
63 3401 - 3520	(Maximum Income		66 3841 - 3960		4061 - 4180	4281 - 4400
65 3521 - 3640	Limits for Con-		68 3961 - 4080		4181 - 4300	4401 - 4520
	tinued Occupancy					

In the above schedule the minimum rentals for the various size units are as follows:

2 Bedrooms (4 Rooms)	\$39 00 - Gas consumption	\$2 24
3 Bedrooms (5 Rooms)	40 00 - Gas consumption	2 46

The minimum monthly income requirements on account of rent that the Authority must achieve as set up by the State Housing Board is \$10,796.00 per month or an average of \$47.35 per unit. For the five month period of complete occupancy of this project it was noted that the Dwelling Rent Income averaged \$11,547.25 per month or \$50.65 per unit.

Projects 200-1 and 200-2 - Management Budgets: In the Contract for Financial Assistance it is stipulated that the Authority will submit to the Chairman of the State Housing Board for his approval its proposed operating budget for each fiscal year at least sixty days prior to the first day of each such fiscal year. It is also agreed that the Authority will operate the project during such fiscal year within that total amount and in accordance with the details of the budget as approved by the Chairman. For this purpose the fiscal year is determined from the date that bonds are issued for Permanent Financing of the respective projects.

In this connection attention is called to the fact that although Project 200-2 was permanently financed as of April 1, 1951 and Project 200-1 as of July 1, 1951, no approved budgets were available for either.

It is difficult to understand how a project can be efficiently managed without the assistance of the required budget. It is, therefore, recommended that immediate steps be taken to compile and submit the necessary budgets in accordance with the Contract for Financial Assistance.

Projects 200-4, 5, and 6 - Liability on Contracts for Ranges and Refrigerators: Even though it was strongly recommended in the previous audit report that the liability of the Authority on the contracts for ranges and refrigerators for Projects 200-4, 200-5 and 200-6 be reflected on the records, no action has been taken.

The Manual of Accounting Procedure of the State Housing Board clearly stipulates that all commitments exceeding \$300.00 should be recorded on the records, so it is again suggested that this policy be strictly followed.

Project 200-1 - Contract for Financial Assistance: Although the original contract for this project was in the amount of \$950,000.00, the final development costs were determined to be only \$911,000.00. It was noted that the original contract was amended to the lower figure and was approved by the State Housing Board.

Project 200-1 - Accounts Receivable: It was noted that this project was reimbursed twice in December 1949, in the amount of \$683.32. The account then reflected a credit balance of \$683.32, which should have been an account payable to Project 200-2. This credit balance in an account receivable account remained on the books until April 12, 1951 when Project 200-2 was reimbursed for the duplicate payment.

This practice is in violation of the Contract for Financial Assistance, which states that funds of one project may not be used to pay expenses which pertain to another project. It would also seem that this matter should have been corrected in a shorter period than sixteen months.

Project 200-1 - Tenants' Accounts Receivable: The trial balance of the Tenants' Accounts Receivable ledger as of the date of audit indicated balances due of \$504.74. In this connection it was noted that \$231.00 of this amount was owed by tenants who had moved. It is suggested that legal steps be immediately taken to enforce the collection of these old open accounts.

Project 200-1 - Insurance: In checking the insurance coverage it was noted that although double coverage was carried on Messenger Robbery and Burglary and Robbery, no insurance protection was available against fire from August 12, 1950 to September 11, 1951. In this connection it was noted that the original fire insurance policy on this project which was dated August 12, 1949, was for a three year period. When it was learned that a so-called Blanket Fire Insurance Policy of the State Housing Board would become available the Authority was advised to write the fire insurance for one year periods until this blanket type policy would become effective. Therefore the original policy was rewritten for the one year period ending August 11, 1950. For some unexplained reason this policy was not renewed by the Authority when it expired.

In connection with the current examination this matter was discussed with the Authority's accountant and a member of the Insurance Section of the State Housing Board. It was then learned that a small fire loss occurred at this project subsequent to the expiration of this original one year policy. The representative of the Insurance Section of the State Housing Board indicated that his Department was notified by the Authority of this loss and that he in turn notified the agent for the blanket fire insurance policy. This agent informed the Insurance Section that this project was not covered by his company and this information was relayed to the Authority. Apparently nothing further was done in an effort to collect for this fire loss. Question is also raised as to why no effort was made at the time of the loss to make a claim. Had steps in that direction been taken at that time, it certainly would have been learned that no insurance protection existed.

Project 200-2 - Debt Service Trust Fund: The premium received on the sale of bonds is deposited in the Debt Service Trust Fund. One-fortieth of this amount is transferred every year to the Debt Service Fund and the remaining balance is invested and re-invested in Treasury securities. On May 8, 1951, the Fiscal Agent purchased Treasury notes at a cost of \$12,935.62 and advised the Authority of this transaction. On May 21, 1951, the State Housing Board advised the Authority as to the proper entries to be made reflecting this purchase and subsequent entries to be made reflecting the income from these securities.

In this connection it was noted that these instructions were ignored and as a result the balance reflected in the books of account in the Debt Service Trust Fund is still understated in the amount of \$113.75.

Project 200-2 - Permanent Financing: The Initial Operating Period for this project ended on March 31, 1951 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue at an interest rate of  $1\frac{7}{8}\%$  was in the aggregate amount of \$1,292,000.00, the total Development Cost less a part of the Operating Surplus of the Initial Operating Period. These bonds were awarded to the highest bidder of record.

The Cambridge Housing Authority is to pay into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with the amounts received from other sources will equal the year's total debt requirement. This amount is to be paid in ten monthly payments,  $1/12$  of the total to be paid on or before the 15th



of the month in each of the first nine months and the balance to be paid on or before the 15th day of the 10th month of each fiscal year.

**Project 200-2 - Commonwealth Contribution:** The Cambridge Housing Authority has not yet received its first annual Commonwealth Contribution. This amount which will represent 2 1/2% of the Certified Development Cost as provided in the Contract for Financial Assistance will be paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the Fiscal Agent are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the Fiscal Agent for the use of these funds.

**Project 200-3 - Sundry Accounts Receivable - Administration:** The balance in this account on the date of audit was \$10.00. An analysis of this account indicated that this balance represented a charge of \$10.00 for a counterfeit bill. The advisability of setting up this item as an account receivable was questioned in the previous audit report. As suggested in that audit report, this counterfeit bill should have been charged off as a tenancy loss.

**Project 200-4 - Insurance Coverage:** An examination of the insurance coverage on this project indicated that only 198 of the 228 units were protected by fire and rent insurance, and that only 96 units were covered by public liability insurance. It is recommended that this situation be immediately adjusted.

**Project 200-4 - Tenants' Accounts Receivable:** In attempting to verify the balances as appearing in the records that the tenants purportedly owed the Authority for rent, verification notices were mailed on a test basis. Of the ten notices returned, nine stated the balances indicated were incorrect. It was determined that this situation was mainly created by the failure of the Authority to apply to these tenants' accounts back credits due them when they moved from temporary housing into this project.

It is recommended that all credits due these tenants be forthwith determined and posted to the individual accounts so that the balances reflected by the books will be correctly stated.

**Project 200-5 - Accounts Receivable Sundry:** Examination of the invoices proved that this project paid for certain office furniture which was purchased for the use of the central office. The various other projects were charged for their proportionate share of these items by setting up accounts receivable on this project's books.

Attention is again called to the fact that this type of transaction is in violation of the Contract for Financial Assistance which states that only the expenses of a project shall be paid from that project's funds. It also defeats the purpose of the Revolving Fund which was set up to pay for items that are applicable to more than one project.

**Project 200-5 - Contract Award:** The original contract award for construction of this project was in the amount of \$618,000.00. Prior to the start of construction, Change Orders 1 and 2 were approved reducing the contract cost by \$46,388.30 to a net total of \$571,611.70.

**Project 200-5 - Contract for Financial Assistance:** The original contract called for 45 units, and was amended to 46 units to include the unit to be occupied by the custodian. This original contract for \$575,000.00 was amended to \$642,000.00 on January 9, 1951 after proper approvals had been obtained to provide for this extra unit and to cover generally higher costs.

**Project 200-6 - Compensation to Architects:** The architect retained by the Authority received his initial payment of \$11,861.00, which was 10% of the estimated construction contract, for preliminary expenses. This amount was paid, however, with funds from Project 200-5. Attention is called to the fact that this payment was made on March 7, 1950 even though the Contract for Financial Assistance between the Commonwealth and the Authority was not executed until August 18, 1950.

In this connection, attention is called to the following:

Part III - Section D of the Contract for Architectural Services under the heading "Compensation and Payments" states:

"First Installment: 10% thereof upon execution of a contract for

Financial Assistance between the Commonwealth and the Authority. "

Section I - Paragraph 13 (s) of the State Housing Board Manual of Accounting Procedure under the heading "Regulation and Use of Development Fund" states:

"Costs incurred for expenses with respect to anticipated projects under future statutory projects are not eligible disbursements from the Development Fund of an existing project. "

On the basis of the foregoing there is no question that the premature payment indicated was illegally made.

Project 200-6 - Contract for Financial Assistance: It was noted that the Contract for Financial Assistance was amended April 3, 1951 to an estimated final cost of \$3,396,000.00. This is an increase of \$604,000.00 over the original estimate of \$2,792,000.00 made August 18, 1950. This further reflects a rise in the per unit estimate of \$3,020.00 from \$13,960.00 to \$16,980.00.

Chapter 372 - Development Costs: An analysis was made of the Development Costs. On comparing the total as appearing in the Development Cost Analysis ledger and Development Cost control in the general ledger with the final Development Cost as determined by the State Housing Board, a variance of \$892.00 was noted. Further examination indicated that this was caused by the failure to post to these accounts the final closing entries as determined by the State Housing Board. These entries effected a net reduction in the final development cost from \$99,390.99 to \$98,498.99 as correctly determined.

It is recommended that these accounts be adjusted so that correct balances will be reflected in all accounting records concerned.

Chapter 372 - Payment of Commonwealth's Annual Contribution to the City: In connection with the current examination it was noted that the final Development Cost of this project has been properly approved by the Authority and the State Housing Board. Upon this final cost is based the Commonwealth's subsidy payment of 2% per year for five years, a total of 10%.

It was noted that the City of Cambridge had received, subsequent to the date of the current audit, two subsidy payments of \$1,969.98 each, a total of \$3,939.96.

Project VN 19100 - Funds Submitted by Collection Agent of Tenants' Accounts Receivable: In attempting to verify balances of outstanding Tenants' Accounts Receivable, verification notices were mailed. In one instance the notice was returned indicating that the balance referred to had been paid to a collection agent. The balance of the account in question was \$10.95, and the former tenant concerned had in her possession two money order stubs in the respective amounts of \$5.00 and \$5.95, dated May 10, 1951 and June 12, 1951.

It was learned that this collection agent does not submit a statement of his monthly accounts nor does the Authority expect him to do so. On request, his collection reports were submitted and it was noted that only the collection of \$5.95 was entered with no reference to the collection of \$5.00.

Obviously closer control should be maintained over these accounts, and in this connection it is urgently suggested that collection reports should be submitted monthly.

It was also learned that the Authority is contemplating writing off certain accounts as uncollectible. Before this action is taken, it is suggested that steps be taken to ascertain that the balances are correctly stated.

Project VN 19100 - Tenants' Accounts Receivable: The trial balance of the Tenants' Accounts Receivable ledger indicated that they agreed with the control account in the general ledger. It was noted, however, that the amounts used to adjust the control account to the total of the individual accounts were incorrect. In this connection it was noted that an entry was made to adjust the control account because collection fees were retained by the collecting attorney. In this case the amount retained was \$3.34 yet the amount on the journal voucher appeared as \$4.44. Further examination of the individual accounts indicated that a tenant was listed as having a credit due of \$15.90, yet it was noted that reimbursement had been made and posted to the control account. If correctly posted to the individual's account, the total would have been increased by \$15.90.



Verification notices were sent out on a test basis to the tenants and the replies indicated that many of the balances were incorrectly stated. The last audit report commented on this situation and indicated that it was caused by the project manager failing to inform the cashier-bookkeeper when certain tenants vacated the premises, therefore, incorrect charges were being entered on the tenants' ledger and control accounts. It is, therefore, again suggested that all changes caused by vacancies, etc., should be immediately reported.

It was also noted that many credit balances appearing in the Tenants' Accounts Receivable ledger have been in this category for sometime. No attempt was made to dispose of them in spite of the fact that many of them should be transferred to tenants' accounts in the other projects.

The previous audit report suggested that steps should be taken to enforce the collection of the long outstanding rent balances, but no co-ordinated activity was noted in this direction. It was noted that the services of an attorney were engaged to collect these old accounts receivable, but the accounts turned over to him did not include all the accounts receivable in this category reflected in the Authority's books. It was further noted that the balances of many of the accounts which had been turned over to him did not agree with the Authority's records.

There appears to be a spirit of general disinterest by the Authority in relation to the accounts of this project, which has apparently been created because these units are to be demolished as soon as the tenants can be removed.

It is nevertheless suggested that steps be immediately taken to set up and maintain these accounts and their collection on a more businesslike basis.

**Project VN 19100 - Tenants' Security Deposits:** It was noted that the book balance of this account was \$148.00, which was in reconciliation with the bank statement. A trial balance of the individual accounts, however, indicated that the balance should have been \$165.00. The variance of \$17.00 could not be explained.

**Project VN 19100 - Sundry Accounts Receivable:** It was noted that the balance of this general ledger account was \$11,539.16. This figure to which should be added a \$10.00 item for a duplicate payment on a Federal project represents the deficit from operations from the inception of the project to January 31, 1950. The previous audit report questioned the practice of setting up this deficit as an asset. As no change has been made in this account, attention is again called to it.

**Revolving Fund:** The original intent in establishing this fund was to simplify the payment of invoices which were applicable to more than one project. At certain intervals charges were supposed to have been distributed to the various projects and the Revolving Fund would be subsequently reimbursed.

Apparently, this fund is not being handled in conformance with its original intent. In this connection attention is called to the fact that invoices which were paid from this fund in several instances pertained to only one project and should have been paid directly from the project's funds. Another instance was noted where an invoice was paid that was applicable to all State and Federal projects and was charged to one State project. It was also noted that an invoice properly payable from the funds in the Washing Machine account was paid from the Revolving Fund and was incorrectly charged to the administration expenses of Project 200-1.

In further connection with the foregoing, it was also noted that payments of invoices pertaining to more than one project were made from the Administration and Development Funds of the several projects. This violates the Contract for Financial Assistance which stipulates that the funds of one project shall only be used for the expenses pertaining to that project. It also entails additional bookkeeping burdens.

It is, therefore, again recommended that the Revolving Fund be used only for the purpose for which it was set up.

**Revolving Fund - Bank Overdraft:** It was noted that the bank account of this fund appeared to be overdrawn in the amount of \$5,203.53 as of June 30, 1951.

This situation was caused by the fact that the fund has not been promptly reimbursed by the projects for which it has made payments. While the distribution of these expenses is made monthly, the subsequent reimbursement had not been currently made.

It is recommended that henceforth this fund be reimbursed as soon as the expenses are distributed to the various projects.

**Revolving Fund - Inventories:** It is the practice of the Authority to purchase larger quantities of materials and supplies than are immediately needed. Supplies are then set up in the various inventory accounts on the Revolving Fund records.

A test check of these inventories indicated many discrepancies between the book balances and the actual physical inventories.

It is recommended that a much more accurate control be maintained over these inventories.

**Revolving Fund - Expenditures - Board Members' Meetings and Dedication Ceremonies:** It is the practice of the Authority to hold some of their meetings in a local club or hotel. These meetings are usually preceded by dinners which are paid by the Authority at which beverages are also served.

In this connection, it was further noted that a dedication luncheon was held at a local hotel. The invoice for this meal indicated that a charge in the amount of \$285.25 was made for beverages, in addition to the cost of the food served.

The propriety of expending funds of the Authority for items of this sort is seriously questioned.

**Pay Roll Account - Reimbursement for Expenditures:** The analysis of the Accounts Receivable from projects on account of disbursements for pay roll expenses indicated that there was no organized routine used for reimbursing this fund. It is understood that, supposedly, this fund was to have been reimbursed monthly. However, this is not being accomplished and furthermore reimbursements do not agree with disbursements.

It is therefore recommended that this account be reimbursed monthly in the same amount as the disbursement.

**Pay Roll Account - Loan to Preliminary Loan Account:** In reviewing the pay roll ledger it was noted that an advance was made from pay roll funds of the other State and Federal projects. This loan which was made to a Federal project for an item which was not on the pay roll should not have been made from this fund, as money advanced to the pay roll fund should be used for pay roll payments only.

#### BEVERLY HOUSING AUTHORITY

REPORT No. 52-H-3

**Annual Report:** Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. It was noted, however, that no reports for the calendar years 1949 and 1950 had yet been made by this Authority. It is therefore recommended that the necessary steps be taken to compile and submit these delinquent reports without delay.

**Maintenance Supplies and Materials:** It is suggested that stock ledger cards be set up for the control of certain maintenance supplies and materials. It is also suggested that items which are lost or damaged should be properly identified and reported so that the aforementioned ledger cards will show the purported inventory at all times.

**Rent Receipts:** It was noted that many tenants had not received official rent receipts when they had paid their rents. It is suggested that all tenants be given the proper receipt immediately when the rent is received.

**Insurance - Project V-19102:** It was noted that no fire insurance had been placed on the 36 Quonset Huts now covered by the Authority. It is recommended that insurance coverage be immediately placed on these units.

**Appropriation Fund - Project V-19102:** It was noted that the Beverly Housing Authority maintains a checking account and pays the invoices of this fund. However, no information pertaining to this fund is available in any of the books of record kept by this Authority. The majority of the paid vouchers were not approved by the Housing Authority members. It is therefore recommended that the necessary accounts be opened on the books of the Authority, and all invoices be properly approved prior to payment being made.

**Discounts not Realized:** In many instances it was noted that discounts had not been realized because bills were not approved for payment by the members of the Authority in



sufficient time to take advantage of the discount terms, and because the discounts due were not computed when the bill was being paid. Although the amounts involved do not represent large sums of money, it is evidence of the fact that necessary care is not being exercised in these matters.

**Deposits of Funds - Project 200-1:** It was noted that the rental income and the Tenants' Security Deposits are both being deposited in the Administration Fund Bank Account. It is suggested that separate bank accounts be maintained for these two activities.

It was further noted that the cash received from tenants is allowed to remain in a cash drawer in the office of the Authority for a lengthy period of time. It is suggested that these funds be deposited daily.

**Pay Roll Records:** It was noted that there are no time sheets or other records showing the hours actually worked by employees of this Authority. It is suggested that steps be immediately taken to provide this detailed record.

**Architectural Contract - Project 200-1:** It was noted that the payments to the architect exceeded the amount approved and submitted by the State Housing Board in the amount of \$5,715.27, because this Authority apparently did not get the necessary required permission before making the final payment.

**Rents - Title V-19102:** All Quonset apartments are rented for \$28.00 a month. It further appears that this amount is adequate to cover the cost of operation of the project.

**Rents - Chapter 200 - Project 200-1:** The rents in this project are computed as follows:

Families with less than 3 minor dependents	18%
Income on Admission Limits	\$3,250.00
Income on Continued Occupancy	3,750.00
Families with more than 3 minor dependents	14%
Income on Admission Limits	\$3,500.00
Income on Continued Occupancy	4,000.00

Utility Charges as follows:

<u>Two Bedroom Units</u>		<u>Three Bedroom Units</u>	
Gas	\$4.91 Estimated Gas 4650 cu. ft.	\$5.55	5269 cu. ft.
Electric	3.49 Estimated Electricity 104KWA	4.15	123 KWA
	<u>\$8.40</u>		<u>\$9.70</u>

Average Rent (Including Utilities) \$45.76 per month

It is estimated that this rent will be adequate to cover the cost of the project. Annually each tenant's income is verified and the rent is adjusted to reflect any change.

It was noted that the operating budget for this project estimated the average rent at \$46.54 per month.

**Security Deposit Fund - Title V-19102:** It was noted that this fund appeared to be \$10.00 short, because one tenant did not pay the necessary deposit. It is suggested that this amount be collected from the tenant in question.

**Project 200-1 - Rent Due:** On the date of audit there was due a total of \$516.00 for rent from tenants. It is suggested that some organized plan to effect collection of these amounts be put in operation.

**Project V-19102 - Rent Due:** It was noted that a total of \$3,528.60 was due for rent from tenants. It is also suggested that some organized routine to effect the collection of these delinquent accounts be arranged immediately.

**Development Costs - Project 200-1:** Attention is called to the fact that although this project was originally planned to cost \$823,000.00, with a unit cost of \$10,829.00, it now appears that the actual final cost is approximately only \$724,000.00, with a reduced unit

cost of \$9,526.00.

**Permanent Financing - Project 200-1:** The initial operating period of this project, ended on March 31, 1951 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of 1.3/4% with a premium of \$8,808.91 was in the aggregate amount of \$724,000.00. The amount represented the total development costs less a part of the surplus earned during the initial operating period in the amount of \$3,446.33.

It was further noted that the books for the initial operating period were closed as of March 31, 1951, and new accounts under Permanent Financing were opened as of April 1, 1951.

In this connection attention is called to the fact that at the end of the initial operating period the cash balance in the Administration Fund was represented as \$17,858.82. At this time accounts payable totalling only \$9,077.98 were represented in the records.

Question is raised as to reasons for only using \$3,446.33 of these cash balances to reduce the amount necessary to be borrowed under the bond issue. It would certainly appear that a much larger transfer of cash could have been used for this purpose, thereby decreasing the requirements in subsequent periods.

In further connection with this matter it was noted that the cash balance in the Development Fund on that date totalled \$10,597.82. These funds were mainly used for interest payments of \$4,430.09 and to reduce the indebtedness from \$730,000.00 under temporary financing to \$724,000.00 under permanent financing.

This housing authority will receive a subsidy of 2 1/2% of the Certified Development costs as the first annual Commonwealth Contribution. The amount involved will, however, be paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of this subsidy payment which is paid to the Fiscal Agent will be held by him for six months and fifteen days before any payments are made from it. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

**General - Revolving Fund:** It is recommended that a Revolving Fund be established to facilitate the handling of expenditures that apply to all projects. To start this fund, each project could transfer certain cash and periodically the revolving fund would be reimbursed for payment from the fund that applied to the respective projects. It is also suggested that the expenses applicable to the projects could be prorated on the unit basis.

**Budget - Chapter 372 - Project V-19102:** It was noted this Authority had not yet submitted to the State Housing Board budgets for the 1950 and 1951 calendar years in accordance with statute.

**Maintenance of Privately Owned Truck by Authority:** It was noted that this Authority pays \$35.00 a month to a maintenance employee for the use of his privately owned truck. In addition it also pays for the registration and insurance of the vehicle and for any major repairs. All payments are made from Project V-19102 funds.

**Tenant's Security Deposits:** It was noted that there was no available record to indicate that Security Deposits have been returned to the tenants or applied to his account. It is recommended that an entry be made on the individual account cards to record these facts.

**Cash Receipts Register - Project 200-1:** It was noted that the cash book does not designate the source of the receipts. It is suggested that all items be properly analyzed when the original entry is made in the cash book.

**Retention of Clerk of Works - Project 200-1:** It was noted that the Authority retained at the same pay rate its Clerk of the Works as a Temporary Maintenance Man when his services were deemed necessary under Project 200-2. Originally he was paid at the rate of \$125.00 weekly. This transfer was made with the approval of the Authority.

**Administration Fund - Title V-19102:** Attention is called to the fact that an account with a former tenant for Security Deposits is still being carried with a \$10.00 balance even though it was applied to his account on August 15, 1950. It is recommended that this situation be adjusted forthwith.



**Disappearance of Certain Rent Receipts:** In connection with the verification of income it was learned, while this audit was in progress that a bank deposit of rent receipts totalling \$813.00 mysteriously disappeared on March 3, 1951 while it was being delivered from the Authority's business office to a local bank. At that time the funds were in the custody of the Authority's Executive Director and Secretary. It was further learned that funds totalling the aforementioned amounts were deposited in the bank account of the Authority at various times until September 20, 1951, at which time complete recovery of all monies involved was made.

#### FITCHBURG HOUSING AUTHORITY

REPORT No. 52-H-4

**General:** The Development Fund and the Administration Fund, Initial Operating Period, were audited for the period June 30, 1950 to September 30, 1950. On that date the balances from the aforementioned funds were transferred to the Management Accounts.

The Management Accounts under Permanent Financing were audited for the period from September 30, 1950 to June 30, 1951.

**Permanent Financing:** The Fitchburg Housing Authority entered Permanent Financing October 1, 1950 with the issuance and sale of bonds in the aggregate amount of \$1,615,000.00. The purchaser of the bonds was Phelps, Fenn and Company and Associates, with a bid of 1 3/4% and a premium of \$17,765.00. This bid appeared to be the most advantageous of all the bids canvassed.

In this connection it was noted that the actual Development Costs totaled \$1,621,647.65. Before the bonds were issued under Permanent Financing, the net income for the Initial Operating Period totaling \$9,744.05 was deducted from these costs, involving a net cost figure of \$1,611,903.40. For some reason, however, these costs were increased for bond issue purposes in the amount of \$3,096.60 with the explanation, "To round off and provide working capital." The practice of using monies obtained from bond issues for these purposes is seriously questioned.

**Annual Subsidy:** The Commonwealth provides an annual subsidy of 2 1/2% of the cost of the project. This subsidy amounted to \$40,375.00 for the first year under permanent financing.

A subsidy payment of \$40,375.00 was received on March 19, 1951 and was paid to the Second National Bank of Boston, who functions as the fiscal agent for this Authority.

**Chapter 200 - Subsidy Payments:** Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the Fiscal Agent are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the Fiscal Agent for the use of these funds.

**Accounts Receivable, Sundry - Initial Operating Period:** It was noted that there is still a receivable for rent outstanding since the Initial Operating Period. It is understood that even though this amount had not been collected, a receipt had inadvertently been given for it.

The State Housing Board in a letter to the Fitchburg Housing Authority advised that the Authority decide the disposition of the matter. The Authority in turn advised its Executive Director that an adjustment be made. This adjustment, however, had not been made as of the date of audit.

**Accounts Receivable - Management:** The balance as stated in the general ledger for this account on June 30, 1951 showed a total of \$1,453.00 prepaid rents. An effort was made to reconcile this amount with the trial balance of individual tenants' accounts. In this connection, it was noted that the individual trial balance totaled \$1,453.00 prepaid rents and \$32.00 accounts receivable. The latter amount was apparently not taken into consideration in arriving at the balance of this account.

It is therefore recommended that these accounts be accordingly adjusted.

## AGAWAM HOUSING AUTHORITY

REPORT No. 52-H-5

Project 200-1

Administration Fund (Initial Operating Period): The surplus from operations during the initial operating period totaled \$10,191.03. This surplus was distributed as follows on the Management records:

Development Fund	
(To Reduce Development Costs)	\$ 5,851 03
Reserve for Payments in Lieu of Taxes	630 00
Reserve for Operations	3,710 00
Total	<u>\$10,191 03</u>

Permanent Financing: The initial operating period for this project ended on September 30, 1950 with the issue of bonds under permanent financing. In this connection it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$331.00 was in the aggregate amount of \$331,000.00, the total Development Cost less a part of the operating surplus of the Initial Operating Period. These bonds were awarded to the highest bidder of record.

The Agawam Housing Authority is to pay into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with the amounts received from other sources will equal the year's total debt requirement. This amount is to be paid in ten monthly payments, 1/12 of the total to be paid on or before the 15th of the month in each of the first nine months and the balance to be paid on or before the 15th day of the 10th month of each fiscal year.

Commonwealth Contribution: The Agawam Housing Authority has received its first annual Commonwealth Contribution in the amount of \$8,275.00. This amount, representing 2 1/2% of the Certified Development Cost as provided in the Contract for Financial Assistance, was paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the Fiscal Agent are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the Fiscal Agent for the use of these funds.

Rents: The rents computed were not rounded off to the nearest half dollar as is required by the Management Resolution adopted by the Authority. It is again recommended that this be done when the tenants' incomes are reverified and the rents are recomputed.

Tenants' Income: It is recommended that the income of all tenants be verified annually.

Custodian: The custodian of this project is not charged for the heat or light in the apartment which he occupies. The costs of the utilities are not charged as part of his salary but are charged as project expense. It is again recommended that the Authority pay the custodian a gross salary and that his rent be computed in the same manner as the other tenants of the project.

Utility Charges: Utility rates now being charged to tenants are insufficient to cover the actual cost of these utilities. It is recommended that the rates be revised to prevent any further deficit from this operation. In this connection it was noted that there was expended, during the audit period for utilities the sum of \$6,687.05, while the total income received for the use of these utilities totaled only \$4,788.00 a deficiency of \$1,899.05.

## ATTLEBORO HOUSING AUTHORITY

REPORT No. 52-H-6

Chapter 372 - Development Fund: It was noted that on August 31, 1951, there was a balance of \$511.67 in this fund. The Authority has been instructed by the State Housing Board to return this money to the City of Attleboro.



Chapter 372 - Rents: The monthly rentals for houses on the Chapter 372 project have been set up as follows:

Two bedrooms - No attic	\$48 50 per month
Two bedrooms - Open attic	49 50 per month
Three bedrooms	53 00 per month

These rents have been approved by the State Housing Board and were apparently based upon local economic conditions. Individual incomes or dependent responsibilities have not been considered either for initial or continued occupancy.

Operating under this schedule, this project showed a profit for the calendar year 1950 of \$12,355.89 which has been turned over to the City of Attleboro.

It was noted that to date in the 1951 calendar year a profit of \$9,469.44 is shown for this project. It is understood that the entire annual profit will be turned over to the City of Attleboro after the close of the year.

Chapter 372 - Subsidy: A subsidy of \$30,399.00 representing 10% of total development costs of \$303,993.88 is due the City of Attleboro by the Commonwealth.

Payments to the City of Attleboro by the Commonwealth, as shown by the records in the office of the City Treasurer, as of date of audit were received as follows:

June 1951	\$ 6,000 00
August 1951	6,000 00
	<u>\$12,000 00</u>

Chapter 200 - Legal Fees: It was noted that a payment in excess of the amount allowed in the Legal Fees Contract was made. It was noted, however, that it was returned during this audit period. It is also understood that because of the length of time that it has taken to complete this project, additional legal work will be necessary.

Project 200-1 - Change Orders: It is suggested that the State Housing Board review the change orders allowed on this construction contract. It would appear that change orders totaling almost \$42,000.00 are comparatively large in relation to the original contract.

Chapter 200 - Site Improvement Account: It was noted that no charges have been made to this account and that the charges that would ordinarily have been made to it have been made to the Structures and Equipment Account.

It is suggested that the necessary adjustments be made.

Chapter 200 - Materials Stored: The control records indicate an inventory of materials stored totaling \$5,900.00 as of the date of audit, yet the inventory as recorded on Periodical Estimate No. 16 was shown as \$8,500.00.

This difference of \$2,600.00 was traced to an error on this estimate. This error should be adjusted as soon as possible.

Chapter 200 - Delay in Construction. Attention is called to the fact that the construction contract was scheduled for completion in October 1950 and as of the date of audit, it is only approximately 85% completed.

The main cause of delay was due to a disagreement between the electrical subcontractor and the wiring officials as to the materials to be used. This dispute which finally involved court action was not settled for seven months. This together with poor weather conditions is given as the cause of the delay.

While this audit was in progress, the Attleboro Housing Authority on September 11, 1951 held a special meeting and directed that a letter of complaint be sent to the general contractor. A copy of this letter together with the contractor's answer follows:

C  
O  
P  
Y

ATTLEBORO HOUSING AUTHORITY  
27 PARK STREET, ATTLEBORO, MASSACHUSETTS

September 11, 1951

----- Construction Company

Attleboro 200-1

Gentlemen:

The Authority considered the unsatisfactory progress in construction at length at its regular meeting at which all members were present. They reviewed your failure to reply to the letter of February 26, 1951 requesting a revised schedule of completion and a statement of any material shortage. They also reviewed and confirmed the action taken at the August meeting in withholding payment on the July requisition.

The Authority also reviewed the matter of time extension and completion. The Architect has made a recommendation to the Authority as to the number of days of time extension to which your company is entitled. Under the most liberal time extension which the Authority could in anyway grant to your company, your operations are now being conducted under the penalty clause of \$186.00 per day for the 93 units and this will continue until the units are accepted for occupancy.

After due consideration the Authority voted that you must take the following steps by Monday September 17, 1951:

1. Reply in full to our letter of February 26, 1951.
2. Arrange to have at least 25 painters on the job to complete the work quickly.
3. Arrange to have sufficient electricians on the job to get the fixtures in to keep up with the painters.
4. Advise particularly with respect to the status of the underground electric installation, the wire for it, what steps you have taken to assure completion.
5. Advise what steps are being taken to complete the landscaping so that seeding can take place prior to October 15, 1951.

This Authority will consider your replies at a special meeting to be held after September 17, 1951. If your replies are unsatisfactory and do not assure that steps are being taken to assure completion at the earliest possible date, the Authority will consider the matter of taking away your right to proceed and having the job finished by others.

Chairman

C  
O  
P  
Y

September 15, 1951

Attleboro Housing Authority  
Park Street  
Attleboro, Massachusetts

RE: 200-1

Gentlemen:

We have your letter of September 11, 1951.

We discuss below, the various items that are still to be completed on the subject job.

**ROADS:** We expect that all roads will be completed during the week of September 17, with the exception of Snell Street. This is a special case involving problems between you and the City of Attleboro, which are yet undetermined. Snell Street already has finished grading. The lack of black-top thereon will not prevent the use of the road or occupancy of any of the units. See also "Drainage" below:



**LAWNS & PLANTING:** This work will be started no later than upon completion of roads which must be used by the trucks to carry loam. We expect however, to be able to use some of the roads before the end of the week. The lawns and planting sub-contractor will commence work this coming week. There should be no difficulty in finishing this work by October 15, 1951.

The job calls for some shrubbery such that you will probably desire to postpone its planting until spring.

**PAINTING:** There were ten painters on the job Friday, September 14. There will be approximately fifteen painters on Tuesday, September 18. Sixty-five apartments have been finished except for present needs of the floor. All ceilings are finished. Fifteen painters are ample for present needs. Floors cannot be sanded and finished by the painter until the electric fixtures are in. Assuming expedition of the electric work, we feel confident that the painter can finish completely at his current rate by October 15. We wish, therefore, that you reconsider your demand that there must be 25 painters on the job. There is no need for that number.

**HEATING:** The Heating system cannot be tested until electric power is available at the manhole. This is the Authority's responsibility. Also the cable must be installed from the manhole, to the building. This is the Electric Sub-Contractor's responsibility. We hope that power will be available at the manhole during the week of September 17.

**ELECTRICAL:** You are fully aware of our difficulty with ----- . You have our letter of September 12 to this sub-contractor. We have had no written reply.

Enclosed is a letter to the American Fidelity Company. Both letters are self-explanatory.

In the event the American Fidelity Company does not initiate vigorous action according to the terms of our letter, we shall bring in another Electrical contractor immediately.

Underground cable is the one material scarcity of which bothers us even now. Assuming availability of the balance of this material, or a mutually satisfactory substitute, we feel the work can be done in three weeks of vigorous prosecution.

**DRAINAGE:** It is impossible to finish the drainage system at the present time until your acceptance of our revised proposal of September 7, 1951, based on Plan U-5 dated 8/14/51 and certain oral modifications. This portion of the work has been held up for over a year through no fault of ours. Until these lines are in, the concrete curbing and black-top at the parking area between bldgs. 6 and 7 cannot be completed. The rough and finish grading at the east end of the building, #6, cannot be completed.

In reference to our proposal of June 13, 1951, for installation of electric service to building 5 from electric manhole please be advised that we have not received an order to proceed. This change involves trench excavation, cutting and platching at manhole and concrete foundation wall at building 5. Until this order is acted upon it ties up parking lot, finish grading, and power for building 5.

This has not been a happy job. Trouble arose when the local Electrical Inspector demanded a rigid conduit. This Company had buildings ready to wire in April, 1950. We have never had an experience similar to that encountered here. The difficulties were not our making.

We are now shooting for an October completion, and with reasonable success on the Electrical work, we should finish about October 20.

We would very much appreciate an opportunity to be present at the meeting at which your Authority considers this reply. There can be some amplification of what is said herein, and undoubtedly there is much more that we can say, and you might like to hear. We do feel that the above replies in substance to all points raised in your letter of September 11, 1951.

Very truly yours,

----Construction Company

## STATE HOUSING BOARD

REPORT No. 52-H-7

General - Checking Account: It was noted that it has been the practice of the Board to use a new checkbook for each fiscal period, and as a result the 1950 checkbook, together with all its unused checks, 81 in number, were destroyed at the end of the fiscal year, and therefore were not available for examination in connection with this audit.

It is suggested that it is not necessary that a new checkbook be obtained for each fiscal period and that in any event all checks not used should be properly voided and retained for audit purposes.

Chapter 372 - Projects Not Certified: This examination disclosed that only three projects authorized under Chapter 372 of the Acts of 1946 as amended, have not yet been certified. These projects, and the reasons given for non-certification are as follows:

Brockton - 19 Units: This project was completed in 1948 and is fully occupied. Construction costs have not yet been certified and no subsidy payments have been made because certain land titles have not yet been cleared. If serious efforts have been made to clear these titles it would seem as though something definite should have been accomplished during the long period of time that has already elapsed since actual completion.

Nantucket - 9 Units: This project has been completed and fully occupied since early in 1951. Final payments to the contractor have not been made because in the opinion of the local Authority the contract was not finished to satisfaction. It is anticipated the differences will be adjusted in the near future and that subsidy payments will be made shortly thereafter.

Boston - Morton Street - 108 Units: Construction on this project has not yet been started, however plans are in preparation and it is anticipated construction will soon be initiated. It was noted that an amount to cover a possible subsidy payment to this project has been included in the 1952 budget.

Chapter 372 - Sales of Houses: Under Chapter 372 when houses are sold by the local Authority the funds received are then turned over to the Treasurer of the City or Town concerned.

To date of audit the following sales of houses were made after competitive bidding with the approval of the State Housing Board:

<u>City or Town</u>	<u>No. of Houses</u>	<u>Total Received</u>
Amherst	6	\$51,600 00
Concord	2	14,500 00

It is understood that a number of other sales are pending.

Title V and Temporary Dwellings: In addition to those projects upon which subsidy payments are made by the Commonwealth the following projects are operated under the supervision of the State Housing Board, under the authority of Chapter 372 of the Acts of 1946.

Title V: These projects were originally erected through the cooperation and under the control of the Federal Government but were later transferred to the respective cities and towns. Any surplus realized from operations is turned over to the local city or town treasurer. As of June 30, 1951 there was a total of 2,897 units in this category.

Temporary Dwellings: Units described as Temporary Dwellings are also covered by Chapter 372 and are likewise supervised by the State Housing Board. These units are generally owned by the cities and towns and include Municipal Buildings converted for occupancy. The net income derived from such projects is turned over to the local government concerned. As of June 30, 1951 there was a total of 142 such units throughout the Commonwealth.



Subsidy Payments - Chapter 200: The first subsidy payments to the local housing authorities were made during the 1951 fiscal year in amounts totaling \$591,625.00. This total will increase as other projects are completed and transferred to permanent financing. It is now estimated that the 1953 payments will total approximately \$3,200,000.00, and when all present projects are completed annual payments from the Veterans' Fund will reach \$4,750,000.00.

In this connection the Contract for Financial Assistance between the Commonwealth, acting through the Chairman of the State Housing Board, and the local housing authorities contains the following clause relating to the payment of the annual subsidy:

"The Commonwealth will pay to the Authority or Fiscal Agent named by the Authority in its bond resolution, annual contributions on the following dates and in the following amounts: on the date five (5) months and fifteen (15) days after the date of the bonds and on the same day in each year thereafter during which any bonds remain outstanding, but in no event for more than forty (40) years after the date of the completion of the project.

At the present time as a result of this clause, the entire subsidy payment is made five months and fifteen days after the beginning of each fiscal year to the Fiscal Agent even though only 15% of the total is needed by the Agent at that time. The result is that 85% of this payment is held by the Agent for six months and fifteen days and attention is directed to the fact that this money is not earning interest from the Fiscal Agent nor has it been invested where it may accrue interest to the benefit of the local Authority or the Commonwealth.

In the various audit reports issued by this Department covering projects which have been transferred to permanent financing this fact has been called to the attention of the State Housing Board, and apparently as a result of these comments the following letter has been received by this Department from the Chairman of the State Housing Board.

Mr. Thomas J. Buckley, State Auditor  
State Auditor's Department  
State House  
Boston, 33, Massachusetts

Dear Mr. Buckley:

Reference is made to comments of your office regarding time of payment of Annual Contributions by the Commonwealth to Local Housing Authorities operating under Chapter 200 and to recent conversations with Mr. Eveleth of your office.

The Attorney General's Office has given an opinion that it would not be legal for these sums to be invested temporarily in U. S. Government obligations. This office therefore plans to change the form of the Contract for Financial Assistance, Par. 1 (b), "Annual Contributions by the Commonwealth", to require payment of annual subsidy by the Commonwealth 25% on the date five months and fifteen days after date of the bonds and the remaining 75% six months thereafter.

A further opinion has been requested of the Attorney General as to the legality of changing the subsidy payment by the Commonwealth by amendment to those Contracts for Financial Assistance of projects which have permanent bonds currently outstanding.

Very truly yours,

William C. Geary, Chairman

Progress of Chapter 200 Projects: The status of the various Chapter 200 Projects as of June 30, 1951 was as follows:

Number of Communities with Projects in Construction Stage	88
Number of Units in Projects in Construction Stage	13,351
Number of Units Completed for Occupancy	10,671

**Contracts for Construction:** It was noted that 47 of a total of 133 contracts for construction do not bear the required approval of the Attorney General's Office.

**Administrative Fund Agreements:** Examination of these agreements showed that several projects have not been covered by such agreements. Funds collected by these projects therefore are not being placed in depositories approved by the State Chairman.

**Issue of Bonds Under Permanent Financing:** As of July 1, 1951, fifty-four projects had entered Permanent Financing with bond issues totaling \$40,705,000.00. This amount included four different issues on a serial basis maturing over a period of forty years. The issues, rate of interest, etc., were as follows:

Date of Bond	Amount	Rate of Interest	Maturities
Oct. 1, 1950	\$10,109,000 00	1 3/4%	Oct. 1, 1951/90
Jan. 1, 1951	13,556,000 00	1 3/4%	Jan. 1, 1952/91
Apr. 1, 1951	9,251,000 00	1 7/8%	Apr. 1, 1952/91
July 1, 1951	7,789,000 00	2 1/8%	July 1, 1952/91
	<u>\$40,705,000 00</u>		

From the foregoing it will be noted that the rate of interest paid, increased from 1 3/4% on bonds issued in October 1950 to 2 1/8% on bonds issued as of July 1, 1951.

While these bonds have been issued in the names of the various local Housing Authorities concerned they are nevertheless guaranteed as to payments of interest and principal by the Commonwealth of Massachusetts and as such are a contingent liability of the Commonwealth.

In this connection attention is called to the fact that bonds issued directly by the State Treasurer, on dates comparable with those on which bonds were issued by the local Housing Authorities, showed a rate of interest which averaged 1/2% below the lowest bids on housing bonds.

Inasmuch as it will undoubtedly be necessary to issue at least \$150,000,000.00 more of such bonds, it is suggested that serious consideration be given to a revision of existing legislation to provide that further borrowings be made directly by the Commonwealth in order to take full advantage of the superior credit of the State.

Should this suggestion be adopted it is estimated that an annual savings of approximately \$700,000.00 per year will result at the time when complete financing becomes an accomplished fact. Needless to state, the savings, when passed along will have decided effect on the expenses of the projects with a resultant possible reduction in shelter rentals.

**Reserves for Maintenance and Repairs:** The financial records of the local Housing Authorities are controlled by the State Housing Board and the Board approves the amounts which are set up on the books of the local Authorities as "reserves" when the accounts of the initial operating periods are closed and those to be maintained under permanent financing are opened. Among the reserves set up at that time is one represented as a "Reserve for Maintenance and Repairs."

Normally reserves of this nature are specifically developed for exact purposes, and are predicated on some predetermined basis. It was learned however, that this procedure does not apply here, since the amounts which are originally used to set up the reserve are not based on any actual percentage, formula, etc., but appear to be based on the amounts of profits remaining from the initial operating period. Under this method, certain inequalities are bound to develop since original amounts will be out of proportion to actual reserve needs and this will naturally affect future operations of the specific projects.

It is recommended that these reserves be set up and maintained on a consistent and adequate predetermined basis.

In addition to the above facts it was further learned that this reserve at the end of a five year period, must provide funds for the payment of the costs of any emergencies which are not usually paid from current operating funds. Normally, where such a reserve is not adequate to provide for such contingencies, other means are usually found for making necessary funds available, but in the case of the local Housing Authorities, unless the necessary funds are available, through this reserve account, no other means have been provided for the handling of emergency replacements, etc. It is conceivable, in the event that the reserve account is inadequate at a given time, that it will be impossible to incur liabilities for certain types of emergency expenditures. It is therefore suggested that this entire matter be reviewed, and that legislation be sought for the correction of what might



in the future prove to be a serious situation.

**Accounts Receivable:** It was noted that certain charges were made to the Barnstable Housing Authority for Construction Advisor's Services for the first three months of the 1951 year in the amount of \$920.52. These charges, however, were cancelled by the accountant for the Board who indicated he had done so after discussing the entire matter with the Chairman of the Board. There appeared to be no actual written substantiation for the cancellation of the item.

A review of the facts underlying this transaction indicated that the amount involved was challenged by a local Authority because of its claim that services were not actually rendered by the consultants who were on the pay roll of the State Housing Board at the time and who had been assigned in a consultant capacity to the local Authority.

It would appear that this Board was lax in its handling of this entire matter and it certainly never should have merely cancelled the item. If, after investigation it developed that the individual did not perform the services for which he was paid in the first instance by the Commonwealth, steps should have been taken to compel him to make restitution for the amounts so overpaid and if investigation proved that he did perform the services for which he was paid, the Board should have insisted on reimbursement from the local Authority.

**Insurance Coverage:** All insurance required by local housing Authorities is provided by so-called "Blanket" policies, which are arranged through the State Housing Board.

The Insurance coverage also included loss of rents on account of unoccupancy due to fire. The premium covering this was based on 55% of the rate for fire insurance and covered an established figure for each project for rents at total occupancy.

All fire and rent policies expire on March 1, 1955. All projects are covered regardless of the date of issuance of the insurance certificate, from the date the project is accepted for occupancy. This coverage also included portions of the projects as parts are accepted. Prior to such acceptances the contractors naturally assume all such liabilities.

**Lowell Homesteads:** Chapter 143 of the Acts of 1909 established the first law dealing with public housing in Massachusetts and authorized a special commission known as the Homestead Commission to investigate the expediency of the Commonwealth acquiring or opening for settlement land in country districts in order to relieve congested tenement districts. Chapter 607 of the Acts of 1911 made this Commission a permanent State agency. As a result of its continued investigations the Legislature appropriated \$50,000.00 in 1917 for an experimental project in the City of Lowell which was called the Lowell Homesteads. The cost of that project was as follows:

Cost of Project:		
7 Acres of Land including a House	\$12,500 00	
Cost of Erecting 12 Houses	28,128 77	
Improvements	2,626 77	\$43,255 54
Unexpended Balance Returned to State Treasury		6,744 46
		<u>\$50,000 00</u>

To June 30, 1951 the results of this project's operations were as follows:

Income from the Sale of Houses and Lots	\$53,237 92
Total Project Cost	<u>(43,255 54)</u>
	<u>\$9,982 38</u>

The total net earnings of \$9,982.38 represented the utilization of approximately 2.2 acres of land. At the present time approximately 4.8 acres of the original land purchased remain in the possession of the Commonwealth with an assessed value of \$8,363.52. It was noted that no other project was undertaken during the existence of the Homestead Commission which was abolished in 1919.

GRAFTON HOUSING AUTHORITY

REPORT No. 52-H-8

General: The Development Fund and the Administration Fund, Initial Operating Period, were audited for the period from June 30, 1950 to March 31, 1951. On March 31,

1951 both funds were combined to form the opening balances of the Management Accounts. The Management Accounts were audited for the period from March 31, 1951 to July 31, 1951.

**Permanent Financing:** The Grafton Housing Authority went into permanent financing on April 1, 1951 with the issue of bonds in the aggregate amount of \$156,000.00.

The purchaser of the bonds was the Chase National Bank of New York and Associates, with a bid of 1 7/8% and a premium of \$1,898.05 reducing the interest charges over the life of the bonds to a net amount of \$64,570.70. This was the most advantageous bid of the bids seen.

**Loss from Operations:** Attention is called to the fact that the records indicate an operating loss on this project for the first four months under Permanent Financing in the amount of \$1,536.57.

**Commonwealth Annual Subsidy:** The Commonwealth contributes an annual subsidy of not more than 2 1/2% of the total cost of the project. This subsidy amounts to \$3,900.00 for the first year under Permanent Financing.

This subsidy of \$3,900.00 will be paid to the Worcester County Trust Company, of Worcester, Massachusetts, Fiscal Agent for the Grafton Housing Authority. It is payable on September 15, 1951.

In this connection attention is called to the fact that approximately 85% of the payments which will be made to the Fiscal Agent will be held by him for six months and fifteen days before any payments are made from it. It is understood that no interest will be paid or credited by the Fiscal Agent for the use of these funds.

#### WEST SPRINGFIELD HOUSING AUTHORITY

REPORT No. 52-H-9

**Title V:** As of the date of audit, 38 of the dwelling units of this project were completely dismantled and sold. The remaining 12 dwelling units have been sold and their removal is now taking place.

In this connection, it was noted that the buildings were advertised for bids and that the contracts were awarded to the highest bidder of those seen.

**Chapter 372 - Subsidy:** As provided by Chapter 372 of the Acts of 1946, as amended, the Town of West Springfield is to receive from the Commonwealth a total subsidy of 10% of the Certified Construction Cost of the project, which was \$350,190.77 over a period of 5 years. To the date of audit, 3 annual payments of \$7,003.82 each totaling \$21,011.46 had been received.

**Chapter 200 - Rental Income:** Although this project has only been 100% occupied for a period of six months, it would appear that the rent schedule is somewhat high as is evidenced by the fact that a profit from operations during that period of \$24,574.91 has developed. It would appear to be in order that the entire rent schedule be reviewed with the end of possibly reducing individual unit rents.

In connection with the foregoing, attention is also called to the fact that the actual development costs were substantially lower than the anticipated costs for development.

#### ANDOVER HOUSING AUTHORITY

REPORT No. 52-H-10

**Rents:** The Andover Housing Authority operates one project consisting of 56 dwelling units. Shelter rent on these dwelling units are calculated on the 18% and 14% basis i.e., 18% of the net income for families with less than 3 minor dependents and 14% of the net income for families with three or more minor dependents.

Utility charges are based on the size of the dwelling unit and are set up as follows:

	<u>Heat and Hot Water</u>	<u>Electricity</u>	<u>Total</u>
2 Bedroom	\$ 7 72	\$5 78	\$13 50
3 Bedroom	9 56	6 24	15 80
4 Bedroom	11 13	6 67	17 80

The calculated shelter rent plus the utility charges establishes the monthly rent charged to each tenant.



Applicants are admitted to tenancy in this project only if their net annual incomes are below the following established income admission limits:

Families with less than three minor dependents	\$3,250 00
Families with three or more minor dependents	3,500 00

Tenants who have been admitted within these limits are considered ineligible for continued occupancy when their incomes exceed the following limits:

Families with less than three minor dependents	\$3,750 00
Families with three or more minor dependents	4,000 00

These tenants are requested to move from the project.

The rents charged are adequate to cover the costs of the project and appear to be in excess of actual needs as is evidenced by the fact that a surplus from operation of more than \$12,000.00 has already developed.

The average rent as set up on the Preliminary Estimate and Actual Average Annual Expense and Minimum Average Rent Schedule is \$35.66. Yet the average shelter rent charged by the Andover Housing Authority for the audit period was \$40.74.

#### NATICK HOUSING AUTHORITY

REPORT No. 52-H-11

Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited from August 31, 1950 to June 30, 1951. As of June 30, 1951, the balances of both funds were transferred to the Management Accounts. The balances of the cash accounts transferred were \$17,353.77 from the Development Fund and \$16,984.63 from the Administration Fund. A transfer was made to the Debt Service Fund of \$18,645.34 for the retirement of temporary notes of which \$10,000.00 came from the Administration Fund and \$8,645.34 from the Development Fund. The balances were held over to cover the outstanding liabilities at the time of the transfer to permanent financing.

The Natick Housing Authority has entered into permanent financing with an issue and sale of bonds in the amount of \$500,000.00. The purchaser of these bonds is Lehman Brothers, Phelps, Fenn and Company and Associates with a bid of  $2\frac{1}{8}\%$ , and a premium of \$5,545.00, reducing the total interest cost from \$246,967.50 to a net interest cost of \$241,422.50. This was the most advantageous bid of the bids seen.

The Commonwealth may make an annual contribution of not more than  $2\frac{1}{2}\%$  of the Development costs. This contribution for the first year of operation under permanent financing is estimated to be \$12,500.00.

This contribution will be paid to the First National Bank of Boston, the fiscal agent of the Natick Housing Authority, on or about December 15, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenants' net family income, as follows:

- 18% for families with less than three minor dependents
- 14% for families with three or more minor dependents

Irrespective of these rent-income ratios, minimum monthly rates have been established as follows:

- \$30.00 for families with less than three minor dependents
- \$23.50 for families with three or more minor dependents

Rents charged actually range from a minimum of \$26.75 to a maximum of \$58.75 with an average monthly rental charge of \$41.69.

Admission and continued occupancy limits have been established as follows:

	<u>Admission</u>	<u>Continued Occupancy</u>
Families with less than three minor dependents	\$3,250 00	\$3,750 00
Families with three or more minor dependents	3,500 00	4,000 00

It has been estimated that the income from rent will be adequate to cover the costs of operating project, taking into consideration the contemplated subsidy receipt from the Commonwealth.

Utility Charges: Additional charges are made for utilities, as follows:

Gas Charge for Cooking and Refrigeration:

2 Bedroom Units	\$3 00 per month
3 Bedroom Units	3 25 per month
4 Bedroom Units	3 50 per month

Electricity:

The tenants are billed directly by the Edison  
Electric Illuminating Company of Boston.

Heat: (Space and Hot Water Heating)

Each tenant pays for his own heating fuel for  
his individual oil-fired hot air heating units.

A profit of approximately \$25.00 to \$30.00 per month is realized from the flat rate charge for gas and comprises the difference between the gas charges from the utility company and the amount collected from the tenants.

In this connection the Executive Director stated that an annual reading would be taken from each tenant's gas meter at which time adjustments will be made with the tenants for all overcharges. He further stated that at present, periodic test readings are made of the meters, with resultant adjustments in the flat rate schedule when necessary.

Gas Meters: It was noted that this Authority purchased 52 gas meters at a cost of \$802.06.

The question was raised as to whether these meters should have been provided by the utility company furnishing the gas or purchased by the Authority and it was learned that in consideration of the Authority's purchasing the meters, the utility company agreed to provide gas at a rate which effects a savings of approximately \$1.00 per month per tenant.

Overpayment: It was noted that an overpayment of \$3.00 was made to an individual for maintenance services rendered. This overpayment was discussed with the Executive Director who stated that he would take steps to obtain a refund of this amount.

SPRINGFIELD HOUSING AUTHORITY

REPORT No. 52-H-12

Veterans' Temporary Project Financial Records: Although the date of relinquishment and transfer of this project to the City of Springfield was April 28, 1950, new financial records were not opened until May 31, 1950. During the interim period all transactions of this project were combined with those remaining under Title V and those coming within the jurisdiction of the Federal Government.

Surplus: It was noted that the surplus of \$4,519.28 as appearing on the financial records of this project was paid to the City of Springfield on September 27, 1951, while this audit was in progress.

#### Project 200-1

Permanent Financing: The Initial Operating Period for this project ended on September 30, 1950 with the issue of bonds under permanent financing. In this connection, it was noted that the bonds were issued at an interest rate of 1 3/4% with a premium of \$27,984.00 in the aggregate amount of \$2,332,000.00, the total Development Cost less a part of the operating surplus from the Initial Operating Period. These bonds were awarded to Phelps, Fenn and Co., and Associates who was the highest bidder of record.



At the end of the Initial Operating Period, there was a cash balance of \$12,744.34 in the Development Fund, \$60,000.00 invested in United States Treasury Bills and \$31,059.24 due from the Administration Fund as a result of the application of part of the Initial Operating Period surplus to reduce Development Costs. These items were disposed of as follows:

Sundry Accounts Payable	\$ 21,570 25
Accrued Interest on Second Series Notes	64,233 33
Reduction of Bond Issue	18,000 00
	<u>\$103,803 58</u>

Administration Fund - Initial Operating Period: The surplus from operations during the initial operating period totaled \$78,875.24. This amount was distributed as follows, under instructions from the State Housing Board:

Reserve for Fire Insurance	\$17,800 00
Reserve for Operations	25,027 00
Reserve for Payment in Lieu of Taxes	4,989 00
Development Fund (to reduce Development Costs)	31,059 24
	<u>\$78,875 24</u>

Debt Service Payments: The Springfield Housing Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount is being paid in ten monthly payments, 1/12 of the total to be paid on or before the fifteenth of each of the first nine months and the balance to be paid on or before the fifteenth of the tenth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$58,300.00, representing 2 1/2% of the total certified Development Cost. This payment was made by the Commonwealth directly to the Springfield Housing Authority's Fiscal Agent, the Springfield Safe Deposit and Trust Company of Springfield, Massachusetts.

Attention is called to the fact that the Fiscal Agent holds these funds for the major part of each year without paying or crediting interest. It is suggested that when future bond issues are arranged on this Authority's remaining projects, that the contracts be so written that these funds will only be paid to the Fiscal Agent as required, or that interest be accrued on unused cash balances.

Investments - Debt Service Trust Fund: In order to lower the net interest cost of the bond issue, this Authority has invested, with the approval of the Chairman of the State Housing Board, \$25,000.00 of the bond premium received in United States Treasury Notes bearing interest at 2%. It was noted in this connection that the accrued interest and premium were charged to Debt Service Expense and the interest received credited to the unamortized bond premium account in accordance with instructions from the State Housing Board.

Rents: It was noted that the admission and continued occupancy income limits and the percentage of income for rent computations for this project were established as follows:

Number of Minor Dependents	Admission Income	Continued Occupancy Income	Per Cent of Income
1	\$3,250 00	\$3,750 00	18%
2	3,250 00	3,750 00	16%
3 or more	3,500 00	4,000 00	14%

This Authority furnishes the water used by each tenant. All other utility charges such as electricity, heat, etc., are borne by the respective tenants.

Apparently the rents charged are adequate to cover the operating costs, and in this respect attention is called to the fact that for the first eleven months of operating under permanent financing a profit of \$15,337.42 was indicated after taking into consideration the 2 1/2% subsidy received from the Commonwealth.

Project 200-2

Development Costs - Site Improvement: It was noted that there was no balance in this account as of the date of audit, all site work to date having been charged to the Structures and Equipment account.

Central Office Equipment: It was noted that a calculator costing \$616.25 and a water cooler costing \$158.60 were purchased with the approval of the State Housing Board and were charged to the Development Costs of this project. As this equipment is located in and used by the central office employees, it is recommended that their cost be pro-rated among all the projects.

Project 200-3

Development Costs - Site Improvement: It was noted that there was no balance in this account as of the date of audit, all site work to date having been charged to the Structures and Equipment Account.

Administration Accounts: As of the date of audit, no accounts had been opened to record the transactions of the initial operating period. Items of income and expense handled through the Development Fund accounts transactions were included with Development Costs in the account for Carrying Charges - Income and Expense During Development. It is suggested that the proper accounts and bank account be set up to record the transactions resulting from occupancy.

Rents: It was noted that the admission and continued occupancy income limits and the percentage of income for rent computations for this project were as follows:

Number of Minor Dependents	Admission Income	Continued Occupancy Income	Per Cent of Income
1	\$3,250 00	\$3,750 00	18%
2	3,250 00	3,750 00	16%
3 or more	3,500 00	4,000 00	14%

Besides the shelter rent, which includes water used by the tenants, each tenant is also charged for heat and hot water in accordance with the following:

	Per Month
1 Bedroom Apartment	\$6 00
2 Bedroom Apartment	7 50
3 Bedroom Apartment	9 50

CLINTON HOUSING AUTHORITY

REPORT No. 52-H-13

Rent Receipt Books: An inventory of rent receipt books was taken on August 31, 1951. As these rent receipt books are not pre-numbered by the printer they bear little value from an auditing point of view and it is suggested that future purchases of these receipts be pre-numbered.

Administration Books: The previous audit report commented on the fact that administration Books had not been properly opened. It was also noted that rents and security deposits were all entered in the "Rents" account.

In this connection it was noted that Administration Books have been opened. Rents collected and security deposits are now being properly entered in individual ledger accounts.

Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited for the period from June 30, 1950 to December 31, 1950. On December 31, 1950 the accounts of the above funds were transferred to Management accounts and as such were audited from January 1, 1951 to August 31, 1951.

The cash balance of the Development Fund was \$22,082.57. Of this amount \$7,358.68 was transferred to Debt Service Fund for retirement of temporary notes. The balance of \$14,723.89 was reserved for outstanding liabilities. The cash balance in the Administration Fund - Initial Operating Period - was \$5,077.36. Of this amount \$620.00 is for



Security deposits, \$540.43 for outstanding liabilities, and \$195.66 for operating reserve. Attention is called to the fact that a balance of \$3,721.27 was retained when it should have been used to further reduce the bond issue.

The Clinton Housing Authority went into permanent financing on January 1, 1951 with the issue and sale of bonds totaling \$319,000.00. The purchaser of these bonds is The First National Bank of Chicago and Associates, who bid 1 3/4% with a premium of \$4,903.00 reducing the interest charge to a net of \$122,322.00, for the life of the bonds.

This bid was the most advantageous of all the bids seen.

Under Permanent Financing the Commonwealth makes an annual contribution of not more than 2 1/2% of the final development costs.

The contribution for the first year under permanent financing was \$7,975.00 and was paid on June 20, 1951 to the National Shawmut Bank of Boston, the fiscal agent for the Authority. In this connection attention is called to the fact that approximately 85% of these subsidy payments are paid to the fiscal agent and are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the fiscal agent for the use of these funds.

Rents: Rents charged by this Authority are based on the following schedule and bear the following relationship to the tenants' net family income:

Families with less than three minor dependents	18%
Families with three or more minor dependents	14%

Irrespective of these rent-income ratios, no rents are charged below the following minimum amounts:

For families with less than three minor dependents	\$30 00
For families with three or more minor dependents	23 50

Net family income limits have been established as follows:

	<u>Admission Limits</u>	<u>Continued Occupancy</u>
For families with less than three minor dependents	\$3,250 00	\$3,750 00
For families with three or more minor dependents	3,500 00	4,000 00

Additional charges for utilities have been established as follows:

Heat - oil fired - each tenant has his own furnace and purchases his own oil.

Electricity - each tenant is billed directly by the utility company.

The rents charged average \$35.05 with a maximum of \$48.00.

It is estimated that the operations for the first year under permanent financing, including the Commonwealth's contribution, will result in a surplus. For the first eight months a profit of \$5,892.81 was noted.

Contract Retentions: Final acceptance of this project has been delayed awaiting the fulfillment of a discrepancy list by the contractor. One of the items in this discrepancy list concerns cracks in the plaster of the walls. The contractor states that he will do a paint retouching job on the immediate area of the cracks involved. While the Authority has not stated its position in the matter, it will leave the walls in an unmatched paint finish, as the paint around the area mentioned by the contractor was put on at least a year ago. Final payment of the contract retention of \$4,337.79 should therefore be withheld until final settlement has been made to the satisfaction of the Authority.

## QUINCY HOUSING AUTHORITY

REPORT No. 52-H-14

Chapter 372 - Subsidy: The annual subsidy from the Commonwealth is paid on the basis of 2% of the total development costs which totaled \$406,777.60. To date 8% of these total costs representing four annual 2% payments in the aggregate amount of \$32,542.20 have been paid to the City of Quincy.

Chapter 200 - Architect's Fees: It was noted that the architect was awarded an additional fee. This was done with the approval of the Authority and the Chairman of the State Housing Board, and was occasioned by the fact that the original project was divided into seven zones with the result that the construction was all completed on the basis of seven individual contracts.

Rents - Project 372 - Temporary: These buildings are converted Army Barracks originally erected by the Federal Government in 1946, for the benefit of needy and distressed veterans. These were relinquished to the City of Quincy to be operated by the Quincy Housing Authority as of January 31, 1950.

The rents consist of the following:

No. of Units		Monthly Rentals	
10	1 Bedroom Suites	@	\$28 00
124	2 Bedroom Suites	@	32 00
10	3 Bedroom Suites	@	36 00

It is estimated that there will be an operating profit for the 1951 year of approximately \$21,000.00. This will be remitted in 1952 to the City of Quincy.

Project 372 - Permanent: These buildings were built in 1948 by the City of Quincy for veterans in the middle income brackets. The rental charge for these units is \$50.00 per month.

It is estimated that the profit from operations of this project for the year 1951 will total approximately \$16,000.00 which should be remitted to the City of Quincy in 1952.

Project 372 - Permanent - Condition of Premises: A visit was made to this project and it was noted that five of the buildings showed signs of the original paint peeling quite badly. It is understood that arrangements have been made to have these buildings painted.

Travel Allowance: At a meeting of this Authority on May 9, 1951 it was voted that the following travel policy be adopted. "Reimbursement of actual travel expenses incurred by employees, as in such cases where an employee uses his or her own automobile for official business shall be compensated at the rate of 7 cents per mile."

In this connection attention is called to the fact that the Commonwealth of Massachusetts reimburses its employees in such instances at the rate of only 6 cents per mile.

Project 200-1: This project of 400 units went into partial occupancy on August 15, 1950. It consists of the following units:

220	-	2 Bedroom Units
160	-	3 Bedroom Units
20	-	4 Bedroom Units

The rent income percentages, net annual income limits for both admission and continued occupancy and minimum rents are as follows:

	Less Than 3 Minor Dependents	3 or More Minor Dependents
Rent Income Percentages	19%	15%
Admission	\$3,650 00	\$3,900 00
Continued Occupancy	3,950 00	4,200 00
Monthly Minimum Rents	31 50	25 00

As of August 31, 1951 the average monthly rent was \$42.10 per unit. It is understood that the State Housing Board has suggested a new rent schedule which proposes a rent reduction of \$6.32 per month per unit.



**Permanent Financing:** As of October 1, 1951, while the current audit was in progress, Project 200-1 entered Permanent Financing. On that date the total operating profit during the initial operating period was indicated as \$124,011.63. Of this amount the sum of \$50,000.00 has been transferred in August 1951 to the Development Account and in effect reduced the Development Costs. It was also noted that the balance of this profit totaling \$74,011.63 was distributed as follows:

Operating Reserve	\$46,412 00
Payments in Lieu of Taxes	7,513 00
Additional Transfer to further reduce	-
Development Costs	<u>20,086 63</u>
	<u>\$74,011 63</u>

Attention is called to the fact that the foregoing distribution was made at the suggestion of the State Housing Board. In this connection it was learned that the amount established to start the so-called Operating Reserve was not premised on fact or on a predetermined formula but was apparently used for this purpose because it simply happened to be available. It is suggested that the State Housing Board study this problem, so that these reserves, which are essentially for the purpose of having funds available at some future date with which to meet contingencies, will be handled on a consistent basis by all local housing authorities.

**Project 200-1 - Reimbursements Received:** On October 1, 1951, while the current audit was in progress, there was received from the City of Quincy, the sum of \$61,827.20. This amount represented 50% of the Utility Costs on this project and was provided by the City at a meeting of its City Council on September 5, 1951. While the audit was in progress there was also received later in October 1951, from the Federal Government, the sum of \$10,140.14. This amount it was understood, represented a portion of the cost of renovating an old building which is being used as a central office for all the projects. It was further noted that these two items were set up on authorization of the State Housing Board as a "Special Depreciation Reserve." The greater part of the proceeds were accordingly invested in United States Treasury Notes in the amount of \$73,000.00 earning interest at the rate of 1 1/2% per annum.

It is difficult to understand why the State Housing Board elected to set these receipts up on a basis inconsistent with that exercised in the development of values in other housing authorities. It is obvious that this procedure was created simply because the money, which was apparently not anticipated, became available and there appeared to be no preconceived account to which it might have been credited. It certainly does appear that more study should have been given the matter and in this connection possibly some arrangements might have been made relative to decreasing the amount of bonds necessary even though the bond prospectus had been issued prior to the receipt of the funds.

This matter also brings out most graphically the inadequacies of the methods of setting up the reserves which are authorized by the State Housing Board. It is therefore suggested that the State Housing Board provide working formulae for the development of all reserves and make them an integral part of their Manual of Accounting Procedure.

#### REVERE HOUSING AUTHORITY

REPORT No. 52-H-15

**Project 200-1 - Contract Awarded - 1/2 Ton Pick Up Truck:** It was noted that this Authority awarded a contract for the purchase of a truck to the second lowest bidder. It was explained that this was done because the truck purchased was better in the following respects:

- Heavier in gross weight
- A longer wheel base
- A truck motor and not an automobile motor
- Truck chassis construction throughout

The variance between these two bids was \$36.30.

**Materials and Supplies - Project 200-1:** It is again recommended that a perpetual stock ledger system or stock ledger cards be maintained for maintenance supplies and materials. All items of this nature should be controlled and all items lost, broken or used should be identified and reported to the accounting office so that the suggested stock ledger will always indicate the correct balances.

**Housing Authority Office:** It was noted that the general contractor has furnished without payment to date all necessary labor and materials in connection with the installation of Travacoustic square edge tile ceilings in the Business Office and the Public Waiting Space. It is understood that no payment has been made to him because Change Order #15 was disapproved by the State Housing Board. This change order was disapproved after the work had been started. It was further noted that another change order which was submitted at a later date for the same work was also disapproved.

**Project 200-1 - Development Costs:** It was noted that although this project was originally planned to cost \$2,500,000.00, with a unit cost of \$12,136.00, it now appears that the actual final cost will total approximately \$2,400,000.00 with a unit cost of only \$11,650.00.

**Project Inspection - 200-1:** It was noted that the exterior paint did not seem to be weathering well. It was also noted that certain buildings appeared quite shabby because of the rusting of the street numbers and zinc oxidation of the screens. These conditions also caused unsightly rust marks to run down over the paint. It was also learned that the cellars of some of the units get water seepage whenever it rains.

**Luncheons and Conferences:** Attention is called to the fact that since July 1, 1950 a total of \$330.18 was expended at various hotels, restaurants, etc., for luncheons, and conferences. This amount was charged to the various projects as follows:

Chapter 372 - Title V	\$ 34 28
Chapter 200 - Project 200-1 - Development	241 30
Chapter 200 - Project 200-1 - Administrative	48 35
Federal Project - Mass. 14-1	6 25
	<u>\$330 18</u>

It is suggested that expenditures of this nature should not be made from housing funds.

**Deposits of Funds - All Projects:** Cash collections are frequently allowed to remain in the safe in the Authority's office for several days before it is deposited. It is suggested that arrangements be made to deposit all receipts daily.

**Separate Bank Accounts:** It was also noted that the rental income and the security deposits were both deposited in the Administration Fund Cash bank account. It is suggested that separate bank accounts be opened for these two accounts.

**General - Revolving Fund:** This fund was established on January 1, 1951 by transferring funds from each project as follows:

Chapter 200 - Project 200-1 - Development	\$1,000 00
Chapter 372 - Title V	500 00
Federal Project - Mass. 14-1	500 00
	<u>\$2,000 00</u>

The expenses applicable to the various projects are prorated on the unit basis as follows:

Chapter 200 - Project 200-1	206 Units	50%
Chapter 372 - Title V	100 Units	25%
Federal Project - Mass. 14-1	100 Units	25%

It was also noted that no general ledger or cash receipt register is being carried for this fund. The State Housing Board Accounting Manual, Part I, Development, Section 4, Paragraph 5, states that these books of record shall be maintained. It is therefore recommended that the necessary records be established.

**Tenants' Accounts Receivable - Chapter 372:** It was noted that one rent account in the amount of \$34.00 has been outstanding for a period in excess of one year. It is suggested that steps should be taken to charge it from the records, if in the opinion of the Authority it is uncollectible.



It was also noted that the minutes of the Authority's meetings of August 10, 1950 and August 13, 1951 approved the charging-off of two accounts in the respective amounts of \$64.40 and \$620.52 because they were deemed uncollectible by its attorney. The larger amount included \$566.00 which was outstanding when the Authority took the project over from the Federal Government in January 1951. Since that time there was a further arrearage accumulated of \$54.52.

Chapter 372 - Revolving Fund Not on Records: It was noted that the sum of \$500.00 that was transferred from this project to start the Revolving Fund was charged directly to the Management Expense account. It is suggested that the proper account be opened in the general ledger for the control of this item and that the necessary adjusting entries be made.

Project 200-1 - Development Costs Charged with Pay Roll Applicable to Management Costs: It was noted that all administrative employees' salaries are being paid entirely through the Development Cost account, rather than through the Management account. This practice has persisted since February 10, 1951, the date of the initial occupancy to the present. During this period there was erroneously charged the sum of \$2,863.92, which included salaries of the following:

Executive Director - 50%  
 Assistant Executive Director  
 Stenographer - Secretary  
 Bookkeepers

It is suggested that the necessary adjustments be arranged as soon as possible.

Project 200-1 - Reimbursement of Electricity: It was noted that the contractor supplied electricity to the project to April 20, 1951, even though the project began initial occupancy on February 10, 1951 and 122 units were completely occupied by April 1, 1951. This matter was settled by agreement between the contractor and the housing Authority in the amount of \$1,141.52.

For purpose of comparison, the following amounts were billed directly to the housing Authority for electricity for the succeeding three months.

4/21 - 5/20	\$ 590 21
5/21 - 6/20	562 16
6/21 - 7/20	510 45
	<u>\$1,662 82</u>

Project 200-1 - Reimbursement of Oil: It was also noted that during construction, the contractor filled the individual fuel tanks with oil in order to keep the project heated thereby avoiding any damages which cold weather might cause. When occupancy began, however, a certain amount of this oil was still on hand in the tanks. The contractor notified the Authority of this fact and after some discussion it was agreed to pay \$1,115.00, which was charged to Operating Expenses and Development Account. In this connection it was noted that the tenants were never charged for this oil although they are required to heat their own units, and apparently no one in authority ever checked the oil inventories so that the aforementioned amount could have been passed on to the tenants.

Purchase of Space Heaters - Title V: Certain tenants purchased their own space heaters. When they vacated their premises the Authority purchased these heaters from them. In this connection the Authority paid for them at prices which ranged from \$25.00 to \$80.00 which were apparently consistent with prevailing prices. All purchases were approved by the local housing Authority, as was indicated by the minutes of the meetings.

Payment in Lieu of Taxes - Title V: It is noted that the housing Authority is assessed \$200,000.00 for the 100 units on the basis of an assessed valuation of \$1,800.00 for each apartment and \$200.00 for each unit of land.

As the Revere tax rate was \$57.00 for the year 1950, the City of Revere received a total payment in lieu of taxes of \$11,400.00.

Vouchers - Title V: It was noted that all expenditures are not supported by vouchers. It is therefore recommended that vouchers be prepared and be made available with receipted bills in future audits.

Insurance on Ranges and Refrigerators - Project 200-1: On August 30, 1950 the Revere Housing Authority with the approval of the State Housing Board insured 122 ranges and 122 refrigerators for a period of one year at a premium of \$305.00. The coverage in the policy was as follows:

"Covering on 122 Electric Ranges and Refrigerators, while in transit to the sites of installation and during the period of of installation and testing until accepted as satisfactory or until the interest of the seller ceases, whichever may first occur.

"While in Buildings, this policy covers loss or damage directly caused by:

- (a) Fire and lighting
- (b) Theft of an entire unit

"This company shall not be liable for more than \$100.00 for each Electric Range nor for more than \$150.00 for each Electric Refrigerator. Under no circumstances however, will the company be liable for more than \$30,500.00 in any one loss, disaster or casualty, either in case of partial or total loss or salvage charges or any other cost or expense or all combined.

"In case of loss or damage to the property insured hereunder this company shall not be liable for more than the original purchase price of such property."

Deliveries on the contracts for electric ranges and refrigerators were made as follows:

Number of Units

<u>Date</u>	<u>Ranges</u>	<u>Refrigerators</u>	<u>Place Stored</u>
July 18, 1950	67		Abraham Lincoln School
August 1, 1950		30	Fire Station Basement
August 29, 1950	55		Abraham Lincoln School
September 24, 1950		46	Fire Station Basement
September 27, 1950		46	Fire Station Basement
	<u>122</u>	<u>122</u>	

The foregoing items were stored where indicated and they were placed in the respective units some time between February 1, 1951 and March 3, 1951.

In this connection attention is called to the fact that as of March 1, 1951, this Authority insured these dwellings against "Fire and Extended Coverage." Under this policy all the ranges and refrigerators contained therein are insured. On this basis, it is suggested that steps be taken to obtain a refund on the first policy indicated heretofore, as it certainly involved duplicate coverage for the period between March 1, 1951 and August 30, 1951.

It was also noted that 84 electric refrigerators which were delivered early in December 1950, and a like number of electric ranges which were delivered on May 1, 1951, were apparently not protected with insurance even though they were stored in the Abraham Lincoln School and were not installed in the respective units until a period beginning with September 1, 1951 and ending with November 5, 1951. In this connection, however, one refrigerator was damaged in shipment, and a claim was made on October 19, 1951 on the insurance company which insured the previously mentioned items. This matter had not been adjudicated while the audit was in progress.

From the foregoing it is obvious that this Authority does not have a complete understanding of its insurance coverage. It is suggested that the entire insurance situation be reviewed.

Appropriated Fund: It was noted that this Authority returned to the City of Revere the cash balance of \$8,157.49 which remained from the fund which was originally established by the City of Revere for emergency purposes for use by the Authority.



Plans and Specifications - Project 200-1 - Extension: It was noted that one \$100.00 check which was originally deposited by a contractor for plans and specifications was not returned to the contractor. It was found that the contractor had not returned the plans although the Authority had requested them as of December 15, 1950 and on October 17, 1951.

It is recommended that this \$100.00 check be forfeited and used to reduce the development costs.

Insurance - Title V: It was noted that Fire Policy #20241, when listing the units covered, omitted one building. The Executive Director was advised of this error and it is understood that the insurance company was notified to provide the additional "binder."

#### Rents - Project 200-1:

	<u>Small Families</u>	<u>Large Families</u>
	(Less than three minor dependents)	(Three or more minor dependents)
Rent Income Ratios	<u>18%</u>	<u>14%</u>
Income Limits:		
Admission	\$3,250 00	\$3,500 00
Continued Occupancy	3,750 00	4,000 00
Minimum Rents	\$30 00	\$23 50
Utility Charges:		
Electricity -		
<u>Dwelling Unit Size</u>	<u>Monthly Quantities</u>	<u>Monthly Charge</u>
2 Bedroom unit	232 KWH	\$5 55
3 Bedroom unit	251 KWH	6 00
4 Bedroom unit	270 KWH	6 45

#### Rents - Temporary Units:

	<u>Number of Rooms</u>	<u>Monthly Rent*</u>
Winthrop Court	3	\$24 00
Winthrop Court	4	28 00
Proctor Avenue	4	28 00
Proctor Avenue	5	31 00
Hopkins Street	3	24 00
Hopkins Street	4	28 00
Carlson Avenue	3	22 00
Carlson Avenue	4	26 00
Carlson Avenue	5	30 00
North Avenue	3	22 00
	4	26 00

\* Includes water only - no other utilities.

#### MIDDLEBOROUGH HOUSING AUTHORITY

REPORT No. 52-H-16

Permanent Financing: The initial operating period of this project started December 15, 1949, the date of the first tenancy, and ended December 31, 1950, with the issue of bonds under the so-called Permanent Financing. In this connection, it was noted the bond issue at an interest rate of 1 3/4% was in the aggregate amount of \$280,000.00, the total adjusted Development Cost of the project, with a premium in the amount of \$4,348.00.

In this connection it was noted that of the profit from operations during the initial operating period \$5,068.86 was used to reduce the amount necessary under the bond issue and \$3,893.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and mainly reserved for the payment of invoices previously incurred in the amount of \$3,060.68 and accrued interest on notes in the amount of \$2,089.52.

Subsidy: A subsidy in the amount of \$7,000.00, representing 2 1/2% of development costs of \$280,000.00, was approved for the Middleborough Housing Authority by the Commonwealth for the year ending December 31, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the fiscal agent for the use of these funds.

Rents: Under the management program adopted by this authority the schedules of rents and incomes for this project are as follows:

Minimum Shelter Rents:	
Less than three minor dependents	\$32 00
More than three minor dependents	30 00
Shelter Rent Schedules per income:	

<u>Annual Income</u>	<u>Three or more minor dependents</u>	<u>More than three minor dependents</u>
\$2,000 00 - 2,500 00	\$30 00	\$32 00
2,501 00 - 3,000 00	34 00	36 00
3,001 00 - 3,500 00	39 00	41 00
over - 4,000 00	53 00	53 00

Utilities Charges - Electricity, Heat and Hot Water:

2 Bedrooms	\$14 45
3 Bedrooms	17 65

Admission Limit	\$3,500 00
Continued Occupancy Limit	4,000 00

Tenants' Ledger: A Tenants' Ledger for this project is not being maintained. It is recommended that the Authority set up this ledger as part of its accounting procedure, in accordance with the suggestion in the manual issued by the State Housing Board.

Tenants' Security Deposits: A security deposit in the amount of \$10.00 was collected in July 1951 and credited to the Tenants' Accounts Receivable Account instead of to the Tenants' Security Deposits Account thereby overstating the income in the amount of \$10.00.

This item was called to the attention of the proper personnel who will, it is understood, make the necessary adjustments.

Rent Receipts: Rent receipts in use at this project are not pre-numbered. It is recommended that the Authority obtain and use receipts which have been pre-numbered by the printer, when their present supply of receipts is exhausted.

Fiscal Agent's Account: It was noted the fiscal agent's account per the books of this authority showed a balance of \$9,280.44 as of September 30, 1951. This balance, however, does not reflect interest payments of \$2,450.00 and a deposit in transit of \$206.52. It is recommended that this account be currently posted.

Minutes of Meetings: It was noted that the minutes of the Authority's meetings are not properly recorded. This is an important record and it is suggested that the necessary steps be immediately taken to maintain this record in its proper form.

NANTUCKET HOUSING AUTHORITY

REPORT No. 52-H-17

Rent Receipts: It was noted that no prenumbered rent receipts were being used. This matter was discussed and it is understood that future purchases of rent receipts will be numbered in advance.

Minutes of Meetings: It was noted that there were no available minutes of the Au-



thority's meetings since November 1950. This matter was discussed with the Chairman of the Authority and it is understood that steps will be taken to correct this situation.

**Subsidy:** This project has not been certified for final approval by the State Housing Board, therefore, no subsidy has been paid.

**Rents:** The shelter rent is based upon the average rents locally and not upon income or family status. No equipment nor utilities are provided - each tenant pays for his own. At the present time, all rents are set at \$42.00 per month.

**Surplus:** This project went into occupancy in October 1950. The books were closed on December 31, 1950, showing a profit for the three months of \$466.20. This amount was set up as a reserve for repairs, maintenance and replacements and vacancy and collection losses.

For the first nine months of the current year to September 30, 1951, the profit from operations totaled \$1,699.68. It is understood that is the intention of the Authority to transfer to the Town of Nantucket any surplus remaining at the end of the calendar year.

#### CHELSEA HOUSING AUTHORITY

REPORT No. 52-H-18

**General:** Examination of Chapter 200 of the Acts of 1948, will clearly indicate that the Commonwealth of Massachusetts has accepted all basic financial risks for housing constructed under this statute. The same law also provides that while operation of each project shall rest with local Housing Authorities, it is the duty of the State Housing Board to exercise such controls over local Authorities, as are necessary to insure the continuing solvency of the local Authorities and thus protect the basic guaranty of the Commonwealth.

Comments contained in this report will clearly indicate that the Chelsea Housing Authority is endangering the financial guaranty given their operations by the Commonwealth of Massachusetts. They will also show that the State Housing Board has not exercised the statutory powers conferred upon it to control and correct the loose and inefficient methods of this particular local Housing Authority.

This report does not attempt to determine whether or not the Chelsea Housing Authority has acted in ignorance of its statutory and contractual obligations, or whether they are actually in defiance of these obligations. The basic fact is that serious situations are developing in the financial operations of this Authority, and strong and direct action on the part of the State Housing Board is immediately necessary in order to avert a substantial financial loss to the Commonwealth. This is particularly true with regard to Project 200-1.

**Chapter 200-1 - Permanent Financing:** Previous audit reports issued by this Department, have called attention to the critical financial condition of Project 200-1.

It has been pointed out that despite extravagant construction costs the project is far below standard in the accommodations that it provides and it is already obvious that maintenance costs will be excessive. Responsibility for these conditions rests solely with the State Housing Board, which at the time of construction, completely usurped the powers of the Chelsea Housing Authority, and once having erected, what is commonly described as the worst housing project in the Commonwealth, the State Housing Board turned the project over to the local Authority to manage, under circumstances which would place even the most efficient management in an impossible situation. Originally rentals were based on excessive construction costs, which resulted in rentals so high that they had to be substantially reduced, with the consequent effect that the project is not producing sufficient revenue to pay for itself, and at the same time rentals charged are still excessive when the quality of the accommodations provided are taken into consideration.

In addition this report will also clearly demonstrate that the previous bad construction policies of the State Housing Board have been followed by equally poor management on the part of the Chelsea Housing Authority.

Since the excessive borrowings made for construction of this project are guaranteed by the Commonwealth, it is apparent that a substantial loss to the State will eventually result. The extent of that loss will naturally be magnified if neither the Authority nor the State Housing Board are willing at this time to take definite and positive action.

A few years ago a Special Commission created under authority of Chapter 79, of the Acts of 1948, faced this problem squarely and recommended a capital grant of \$350,000.00 to the Chelsea Housing Authority which would be used to reduce the costs of this project. Although this recommendation was not adopted it now becomes increasingly evident that such a step will be necessary before permanent financing is even considered, for a con-

tinuation of the present policy to repeatedly refinance this project through temporary notes will eventually cost the Commonwealth more than a million dollars. Despite these facts the State Housing Board has never given any public evidence of its attitude or offered any solution of this problem.

Construction of this project was finished and the project was fully occupied in 1949. The reason advanced some time ago for not entering permanent financing more promptly was that there was a dispute with the general contractor regarding final acceptance of the project. In this connection it was noted that this disagreement was settled and final payment was made to the contractor on May 15, 1951. The issue of notes outstanding at that time came due on July 30, 1951 and this would normally have allowed the State Housing Board nearly 3 months between May 15 and July 30 to at least attempt to place this project in permanent financing. However, temporary notes on a twelve months basis were issued dated July 26, 1951 maturing July 31, 1952, with the result that it will be practically impossible to place this project in permanent financing before the due date of these temporary notes. In the meantime, interest costs are being capitalized instead of being paid out of current income, thereby continually increasing the total of bonds that will eventually have to be issued when this project does finally enter permanent financing.

This problem can no longer be evaded and responsibility rests solely with the State Housing Board.

Project 200-1 - Architectural Services on Change Orders: As mentioned in a previous audit report, the total change orders on this project amount to \$76,672.81.

In this respect it was noted that fees charged by the architect included a percentage of \$73,153.73 of these extras. The charges for these extras were apparently based on the following letter from the State Housing Board:

COPY

THE COMMONWEALTH OF MASSACHUSETTS  
STATE HOUSING BOARD

18 TREMONT STREET, BOSTON 8

April 29, 1949

Office of the Chairman

Phillip S. Jackson, Executive Director  
Chelsea Housing Authority  
Room 303, City Hall  
Chelsea, Massachusetts

Dear Mr. Jackson:

This is in answer to your inquiry regarding inclusion of the cost of extras in the sum upon which the architect's fees is based. You are authorized to include the cost within such sum.

Very truly yours,

(Signed) HAROLD ROBINSON  
Director

In this connection attention is called to the fact that this Director is not consistent in his opinion as is evidenced by a later directive which was prepared and issued by him:

"There has been some confusion regarding payment to architects for work done during construction. The question has been raised as to whether the architectural fee is based upon the construction awarded or the construction award plus extras. The purpose of this memorandum is to clarify that question.

"The Contract for Architectural Services specifically provides that the figures against which one applies the table of percentages is the bona fide construction bid. That figure is not to be increased by the cost of any extras or change orders. Compensation for changes in plans after an award, is taken care of by Article II, Part III of the Contract for Architectural Services. Where



change orders or proceed orders are prepared which do not involve additional drafting, there will be no compensation paid to the architect.

(Signed) HAROLD ROBINSON  
Director

If this latter ruling is to be accepted as final the architect has been overpaid.

**Project 200-1 - Oil Burner Service Contract:** It was noted that while the amount of this contract was \$1,050.00, upon checking payments to the contractor, it was found that the amount paid for replacing supposedly defective parts exceeded the contract price in the amount of approximately \$1,500.00.

In this connection, it was also noted that when this contractor made his initial visit to service these oil burners, he supposedly replaced all nozzles and electrodes. The Authority did not question later further continual replacements of these same parts. Attention is further called to the fact that in only one instance did the Authority attempt to verify this contractor's prices with an outside source and in this case they found that they were being overcharged for replacement parts and an adjustment in price resulted.

It is recommended that all invoices for parts submitted by the contractor be reviewed and the prices charged be verified with an outside source. It is also suggested that an adjustment be sought from the contractor with regard to the aforementioned nozzles and electrodes.

**Chapter 200-1 - Tenants' Accounts Receivable:** A trial balance of this account indicated that tenants and former tenants owed rent arrearages in the amount of \$1,018.10. It is unnecessary to comment that this amount is excessive and radical changes are necessary in the collection policies of this Authority, if the following case can be taken as indicative of these practices.

A maintenance man hired by the Authority in May 1949, moved into a project in May 1950. His account showed arrearages beginning in December 1950. Although he moved from the project on March 31, 1951 owing \$68.50 in rent he still remained on the Authority's pay roll until April 20, 1951. During the intervening three weeks there is no evidence of any attempt being made to collect the amount owed by him and this account still remains open on the books and it is understood that the Authority is considering writing it off as uncollectible.

**Project 200-1 - Payments to Arbitrator and His Attorney:** The arbitrator in the dispute between the Authority and the general contractor submitted two invoices amounting to \$2,467.50 for his services. One invoice in the amount of \$1,230.00 was approved by the State Housing Board and paid out of the Administration Funds when it actually should have been a proper charge to Development. The other invoice in the amount of \$1,237.50 was paid by the Authority, even though there appeared to be no approval by the State Housing Board for this action.

It is therefore recommended that the Administration Fund be reimbursed for the improper charge in the former item and that either approval be obtained from the State Housing Board or that the payment be refunded to the Authority in the instance of the latter item.

The Authority also approved and submitted to the State Housing Board for its approval, an invoice submitted by an attorney representing this arbitrator in the amount of \$250.00. In this connection the State Housing Board stated in its letter of September 20, 1951:

"The basic arbitration agreement between the Disputants provided for the payment of a specified sum per day to the arbitrator for his services. By your vote you, therefore, approve an additional payment of \$250.00 to the arbitrator, such sum to be paid to said arbitrator's attorney on his behalf and such sum being a proper expenditure under the terms of the arbitrator's agreement. On this basis the payment is approved."

This is a weak-kneed and spineless decision on the part of the State Housing Board and should be rescinded and the local Authority should be required to take immediate steps to obtain a refund of the overpayment.

**Project 200-1 - Gifts to Members of the State Housing Board:** In checking the petty cash vouchers it was noted that a bill in the amount of \$20.00 was submitted by the Attorney for the Authority, with the explanation that the expenditure was for the purpose of

providing gifts to two employees of the State Housing Board.

Without question this is an entirely improper expenditure by the Authority and a refund should be immediately obtained from the attorney. It is also recommended that the State Housing Board advise their employees that such gifts are not acceptable.

Project 200-1 - Missing Refrigerators: The following letter from the Police Department of Chelsea to the Authority pertaining to certain missing refrigerators was received by the Authority:

COPY

POLICE DEPARTMENT  
CITY OF CHELSEA  
MASSACHUSETTS

April 30, 1951

JOHN J. KIRBY  
CHIEF

Mr. Anthony Navoy  
Chelsea Housing Authority  
City Hall  
Chelsea, Massachusetts

Dear Mr. Navoy:

Below is contained a report of certain investigations requested by you representing the Chelsea Housing Authority, and Mr. Arthur O'Farrell of the State Auditor's Office, and concerning two refrigerators missing from their warehouse at #5 George St.

The undersigned questioned the following personnel of the Housing Authority:

....., Assistant Custodian  
....., Assistant Custodian  
....., Secretary of the Housing Authority  
....., Assistant Secretary

In our talks with the above people we learned that the key for the warehouse was always kept by Miss B. .... at her desk and only given to the Custodians or other members of the Authority. That in the warehouse stoves, sinks and refrigerators for the Housing Authority were always kept under lock and key and that on November of 1949 Mr. L.... delivered one refrigerator to the warehouse and in December 1949 he again made a check at the warehouse for Miss B.... and reported back to her that two refrigerators were missing and also learned that they were not taken out by the Custodians for any unit of the Housing Authority. No report was made at that time to the Police Department concerning the missing refrigerators. We are still interested in this case and should further developments occur in the near future we shall get in touch with your office.

Very truly yours,

/s/ John P. Sexton  
John P. Sexton  
Lieutenant of Police

/s/ Joseph B. Smith  
Detective Joseph B. Smith

The careless attitude of the Authority in failing to protect public property entrusted to their care cannot be easily explained. It will be noted from the foregoing that the refrigerators were first missed in December 1949 and the matter was not referred to the police until 1951 and then only at the insistence of this Department.



**Project 200-1 - Petty Cash Fund:** A petty cash fund was established for the purposes of paying minor expenses. Examination of the data supporting expenditures from this fund disclosed the following:

1. Expenditures are being made with currency which should properly be paid by check.
2. Expenses relative to other projects are being paid and the fund is not being properly reimbursed.
3. Vouchers are being paid without proper analysis of data supporting the expenditure.
4. Vouchers have been submitted and paid which do not bear the receiver's signature.
5. An attempt was made on two vouchers to obliterate substantiating data which disclosed that the expenses were properly chargeable to other projects.

The foregoing items are evidence that this fund is being grossly mismanaged and it is recommended that all expenditures, both current and past, from this fund be reviewed and any expenses pertaining to other projects should be adjusted forthwith. It is further recommended that proper supporting data and detail be made and incorporated with the vouchers before further payments are made.

**Project 200-1 - Contract for Financial Assistance:** In applying for a Contract for Financial Assistance, an Authority submits for the approval of the State Housing Board a Certificate of Purposes and Estimate of Cash Requirements. This also becomes for all practical purposes, a construction budget. The construction budget originally submitted by the Authority for this project amounted to \$1,040,000.00. As of the date of audit, however, the Development Costs of this project had reached \$1,080,000.00 and no amended construction budget has been submitted by the Authority nor has the Contract for Financial Assistance been amended. Any local Authority should be required to operate within the confines of their Contract for Financial Assistance and should contingencies make this impossible, the Contract should be revised as soon as the need for extra funds becomes evident.

It is therefore recommended that the Contract for Financial Assistance be amended to include the actual Development Costs of this project.

**Project 200-1 - Security Deposits:** A trial balance of this account disclosed that there were three Security Deposits in excess of the number of units available for renting. On checking, it was found that two of these deposits belong to tenants who vacated the project owing rent and the other to a tenant who moved not owing rent. It is recommended that the former two deposits be applied against the Tenants' Accounts Receivable and the other deposit be returned to whom it belongs in order to adjust this account to the correct balance.

**Project 200-1 - Operating Statement and Rental Income:** The operating statement for the thirteen months of this audit period disclosed that the project income exceeded its expenses by only \$274.80, and this balance resulted solely from the fact that no provisions were made for any reserves. It is therefore obvious that if the necessary operating reserves had been set up, a substantial deficit from operations for this period would have resulted.

Rental charges for this project for the period of audit averaged approximately \$41.00 per unit and this charge includes only cold water since all other utilities are supplied by the respective tenants.

From the foregoing it is obvious that this project cannot be operated at an average rental of only \$41.00 and produce sufficient revenue to maintain the project and amortize its costs. Yet, the present rents are in most instances excessive in consideration of the shelter offered.

**Project 200-2 - Accounts Receivable Sundry:** Accounts of this Authority include as an outstanding receivable the amount of \$1,012.00 which was originally paid to the City of Chelsea for construction electrical permits. The explanation of this unusual item is that the Authority hopes the City of Chelsea will refund this money and make no charge for these permits. This same situation existed in Project 200-1 and here too the City refused to refund the cost of these permits and this amount was finally charged off to Development Costs. This amount should also be written off on the same basis.

**Project 200-2 - Preliminary Estimate of Average Annual Expense and Minimum Average Rent:** This form, which functions as an operating budget while the project is in the initial operating period, is required by the State Housing Board when Part II of the Application for Financial Assistance is submitted for approval.

The purpose of this budget is to set limits on expenses within which the Authority is expected to operate. No such report was available at the Authority's office and consequently this project is being operated in complete ignorance of any established expense limits. This certainly is not conducive to efficient management.

It is recommended that this Authority prepare and submit these estimates for approval to the State Housing Board and that the project be operated within the limits of the amounts thus established.

**Project 200-2 - Potential Income from Rents:** In attempting to verify the potential income from rents, it was noted that the Dwelling Rent Income account indicated \$19.86 more than was reflected in the rent rolls. In checking it was found that an original rent roll was established and posted to the books of account and subsequently an error in computation of a tenant's rent was discovered. The original figure, which was posted to the tenant's individual account and recorded on the rent roll, was however erased and the corrected figure substituted. After making this primitive correction no adjustment was made to the Dwelling Rent Income account or the control of the Tenants' Accounts Receivable.

To correct by erasure a figure once recorded is evidence of a complete lack of knowledge of basic accounting practices. These adjustments in the future must be handled by journal entries.

**Project 200-2 - Management Expenses:** The manuals issued by the State Housing Board set forth the definitions of the various accounts and also contain instructions relating to the account to which expenses should be charged. The Chelsea Housing Authority completely disregarded these manuals as is evidenced by the following:

1. An employee of the Authority was hired to handle applications and investigations of applicants for apartments in this project. After full occupancy of the projects was completed and despite the fact that he no longer devotes his time to the investigation of applicants, his salary is still being charged to the Development Account, Tenant Selection Costs.
2. The salaries of the Staff Accountant and Executive Director are still being paid from the Development Fund of this project even though the project is in the Initial Operating Period. Such expenses are properly chargeable to the Administration Fund.
3. Oil purchased to supply heat and hot water for the tenants; supplies pertaining to repairs and maintenance of the project and other similar expenses which should be charged to the Administration accounts of the project are being charged to the Development account, Operating Expenses during Development.

**Project 200-2 - Change Orders:** The total amount of change orders already issued in connection with the construction of this project total \$92,856.28 and represent an increased cost of approximately \$750.00 per unit. It is worthy of comment that these change orders have exceeded the 2% limitation of \$27,767.80 by \$65,088.48.

The following correspondence which relates to several of these change orders, gives evidence that the architect is endeavoring to hold the cost of this project as closely as possible to the original bid, and it will be noted that the State Housing Board has interfered and overruled his decisions.

COPY

.....  
 .....  
 .....  
 May 2, 1951

.....Construction Company  
 .....Street  
 Boston, Massachusetts

Re: Chelsea Housing Project 200-2



Gentlemen:

I have reviewed the situation with regard to your change order request of April 10th in the amount of \$855.22 in laying brick on the curved walls in the entrance halls of the above mentioned project.

Inasmuch as these walls were originally on the plans and called for in brick, and since your superintendent on the job questioned the radius and asked for approval on laying out these walls, I can see no justifiable reason for additional cost.

Sincerely yours,

HS:es

.....

Copies to:

State Housing Board  
Chelsea Housing Authority

Perhaps more significant are the following two letters which were also received from the same architect. One is addressed to the general contractor on June 20, 1951 and the other, dated approximately a month later is addressed to the Authority.

COPY

.....  
.....  
.....  
June 20, 1951

..... Construction Company  
..... Street  
Boston, Massachusetts

Re: Chelsea Housing Project

Gentlemen:

With reference to your Change Order request of June 19, 1951 for applying rubber based concrete paint to sixteen (16) stairways in the above mentioned project, this amount (\$911.26) cannot be approved by my office as I have never instructed you to do this work.

The original specifications called for colored "Masterplate" for the surfacing of all stairs and hallways, to be finished with an application of colored wax. If the stair-halls were painted, this is entirely your affair as no request nor approval for this work was given.

Very truly yours,

HS:es

.....

Copies to:

State Housing Board  
Chelsea Housing Authority

COPY

.....  
.....  
.....

Chelsea Housing Authority  
City Hall  
Chelsea, Massachusetts

July 16, 1951

Re: Chelsea Housing Project 200-2

Gentlemen:

Enclosed you will find a change order for painting the floors of sixteen (16) stairways in the abovementioned project.

This change order is being sent on the instruction of Mr. D.... of the State Housing Board, and I refer you to my letter of June 20, 1951 regarding this matter.

Yours very truly,

HS:es  
Enc.

.....

Following receipt of this letter this item became Change Order No. 53 in the amount of \$911.26.

Chapter 372 - Surplus and Accounts Payable to City: This project which was originally under the control of the Federal Government was taken over by the City of Chelsea on March 1, 1950. An audit made at that time by the Federal Auditors determined that this project owed the City \$14,130.67 in accounts payable and \$1,244.26 on account of surplus from operations. This money was not paid until September 30, 1951 nineteen months after the determination was made.

Attention is called to the fact that the surplus from operations for the period from March 1, 1950 to December 31, 1950, for this project was originally determined to be \$5,875.84. At a later date, a new surplus of \$3,313.46 was computed. This lower figure was arrived at by adjusting the Reserve for Repairs, Maintenance and Replacements. In this connection it was noted that the original reserve was based on 3% of the Dwelling Rent Schedule for the period and the adjustment that was made consequently decreased the surplus available to the City and increased the reserve computation to 10% of the same Dwelling Rent Schedule.

In view of the fact that this project is situated on land leased for a two year period from private owners it would seem that a 10% reserve is in excess of requirements. It is recommended that this reserve be reduced to the original 3% and the difference be turned over to the City as surplus from operations.

Chapter 372 - Rentals: Individual incomes have no bearing on this project's rents. The rentals in this project range from \$24.50 to \$31.00, with an average rental during the audit period of approximately \$28.00.

Chapter 372 - Operating Budget: In order that some control may be exercised over the expenditures of an Authority in the management of a project, the State Housing Board usually requires that an Authority operate under a yearly budget approved by the State Board. No budget approved by the State Housing Board for this project was on hand and there was no indication that the Board has demanded such a budget from this Authority.

It is recommended that the Authority prepare such a budget and submit it for approval to the State Housing Board.

Chapter 372 - Appropriated Fund: This fund represents money originally given to the Authority for expenses incurred in the preparation of the site and other preliminary expenses in connection with the original establishment of this project. This fund is not reflected on the books of the Authority.

During the previous audit made by this department, it was noted that the balance in this account was \$5,480.67 and since the purposes for which this fund had been created had been accomplished, it was recommended at that time that this balance be returned to the City. This recommendation has been ignored.

During this audit period, it was further noted that a parcel of land was purchased for \$1,350.00 from the funds of this project. This action, without the authorization of the City, was questioned by the State Housing Board who thereupon requested an opinion as to its validity from the Attorney General of the Commonwealth.

The opinion given by the Attorney General in this connection reads in part as follows:

"It is obvious from the foregoing that, under the mandate of the Statute, this



surplus money should have been turned over to the City of Chelsea. It was not the property of the Authority, but was now being held in trust by the Authority. If the City could have spent the money without the approval of the Board, it would have had to do it by its own direct action. The Authority had no power to spend City owned funds in the manner in which it did.

"While the record here is not to clear, it seems that title to the land was taken in the name of the Chelsea Housing Authority. The Authority had no right to take title in such a way. If the Board wishes to approve the transaction, it is suggested that the Chelsea Housing Authority turn its surplus from Title V Projects to the City of Chelsea; the City of Chelsea in turn appropriate the money in question to the Housing Authority for the purpose of purchasing these lots in the City's name; the approval of the Board be obtained for this appropriation; and a deed executed from the Chelsea Housing Authority to the City of Chelsea for these lots."

Despite the positive opinion indicated this Housing Authority has ignored its instructions and with complete disregard for the rights of the City, has used a solution of their own making, and drawn a check on the Appropriated Fund and reimbursed the funds of the Chapter 372 project. Attention is also directed to the fact that the Authority is contemplating further purchases of land, and it is hoped that, should such purchases become a fact, the Authority will use the proper legal procedures.

It is therefore recommended that the Authority reimburse the Appropriated Fund for the cost of land purchased and that this entire matter be handled in the manner consistent with the opinion of the Attorney General.

**Chapter 372 - Fire Insurance Policy:** Attention is directed to the fact that fire insurance on this project in the amount of \$324,000.00 was purchased for a period of five years, from September 26, 1951 to September 26, 1956, at a cost of \$9,254.40, despite the fact that the leases on the land on which this project is located are written to expire two years from June 1, 1951, and there are no provisions for renewal incorporated in these leases.

As a direct result of this ridiculous purchase, the City of Chelsea will be deprived of substantial income from this project for the current year.

It is recommended that the term of this policy be revised to coincide with the expiration date of the lease and that an adjustment be obtained from the insurance company. The Authority then will be in a position to make a sizable payment to the City.

**Chapter 372 - Petty Cash Fund:** It was noted in the previous audit report that there has been no activity in this account since November 1949, and at that time it was recommended that this account be closed. At the beginning of this audit, all cash in the office was requested so that it could be verified. Subsequent to this, a trial balance of the project's accounts revealed a Petty Cash Fund which had not been produced at the time of our original request, amounting to \$10.00. When inquiry was made as to the source of this cash, the staff accountant produced an envelope from a file containing the identical cash and petty cash vouchers that were on hand as of the opening day of the previous audit.

No reason was given for failure to comply with the comment in that audit report or for the apparent desire of the Authority to retain this cash.

**Chapter 372 - Security Deposits:** A trial balance of this account indicated that there were two security deposits on hand which had been collected from former tenants.

In this connection it was learned that one of these former tenants owes the Authority more than the amount of deposit, while the other left his apartment in such condition that the Authority was required to make expenditures in excess of the amount of the deposit to recondition the apartment.

It should not require an audit by this department to point out a simple bookkeeping transaction which consists of applying one of these deposits to the Tenant's Accounts Receivable and applying the other as a reduction of the cost of Repairs, Maintenance and Replacements. The accounting staff of the Authority should have been more cognizant of its duties than to allow such a simple process to lapse.

**Chapter 372 - Awarding of Contracts:** An examination of the contracts awarded during this period disclosed that three contracts were not awarded to the lowest bidder. The reasons advanced for not awarding these contracts to the lowest bidders were indicated as follows:

**Contract for Paint:**

The Authority states the paint of the low bidder did not meet with specifications.

**Contract for Gas Plates:**

The gas plates of the second lowest bidder were purchased because the Authority said they were better in workmanship and materials.

**Contract for Pruning Trees:**

The contract was awarded to the second lowest bidder because the low bid states "pruning" instead of "fine pruning".

In this connection a reliable concern doing this type of work was contacted during the course of this audit and they stated that there is no difference between the two terms.

Attention is also directed to the fact that none of these contracts were approved by the State Housing Board.

**General - Records of the Authority:** During the course of this audit numerous instances were noted of missing correspondence and records from the Authority's files. The explanation offered was that some of these records were in the possession of its attorney who would not or could not produce them. In other cases no reasons were given for the disappearance of certain records.

The Authority should have all records pertinent to their administration in its files and available for audit. The practice of allowing records to be taken from the Authority's files without a receipt indicates management without knowledge of basic office procedures. It is recommended that the Authority immediately require all records belonging to the authority be returned to it.

**General - Personnel:** The Authority presently employs a staff accountant at a salary of \$74.96 per week. In addition it engages a firm of private accountants which is paid a rate of \$50.00 per month per project.

It would seem that the services of one or the other is superfluous, and in the interest of economy some action should be taken to eliminate this apparent duplication. In this connection, it appears that the Authority, obviously, has no interest in that direction as is evidenced by the fact that the minutes of an Authority's meeting held early in 1951 indicated that the aforementioned firm of private accountants stated they would reduce their fee from \$50.00 per month per project to \$25.00 per month per project, but the offer was ignored and the Authority is still paying the stated \$50.00 per month per project fee.

**General - Disbursements:** An examination of the vouchers for various personal expense disbursements disclosed that the Authority in many cases has approved such expenditures without requiring a breakdown of the expenses involved or proof that the expenditure had actually been made in the first instance.

As an example, checks in the amount of \$350.00 were drawn to finance a trip of two members to a housing convention. Although two members supposedly went on this trip, all the checks were made payable to one member and no substantiating receipt vouchers were ever submitted.

In another case, checks in the amount of \$150.00 were drawn for members to attend another housing convention in Worcester, Massachusetts. These checks were made payable to cash and apparently covered the expenses of three members of the Authority and non-members to this convention.

Attention is directed to the following basic principles of simple accounting control:

1. No checks should be drawn to cash.
2. No payments should be made which are not completely substantiated.



It hardly seems necessary to advise the Authority that travel expenses for individuals not directly connected with the Authority are not proper charges against public funds.

**General - Compensation to Attorney for Extras:** The legal contract between the Authority and its attorney states that he shall be paid for expenses at the rate of:

"Actual transportation costs, not exceeding five cents (.05¢) per mile for actual mileage traveled and ten dollars (\$10.00) per diem for subsistence expenses in the course of travel."

It was noted that the attorney for the Authority has been paid continuously at rates far in excess of the terms of this contract. The Authority has no right to authorize payments which exceed its contract obligations.

**General - Violation of the Contract for Financial Assistance:** An attorney, who simultaneously is employed by the City of Chelsea in its Assessing Department in the capacity of Title Clerk, has been paid the following fees by this Authority.

Legal Services for Project 200-1	\$ 3,500 00
Legal Services for Project 200-2	5,000 00
Land Title Work for Both Projects	2,340 00
	<u>\$10,840 00</u>

In addition to the foregoing, he has been paid for other expenses totaling approximately \$300.00 during the audit period. He has also submitted an invoice to the Authority in the amount of \$14,000.00 for other legal services. The Authority has already approved this latter invoice for payment and has submitted it to the State Housing Board for its approval. As of this audit date, this invoice has neither been approved nor disapproved by the State Housing Board.

Attention is directed to the fact that the contract under which this city employee has been paid and now seeks further payment is in direct violation of Section 17 of the Contract for Financial Assistance between the Authority and the Commonwealth which prohibits any employee of a city or town from having any interest in a contract for services with a local Authority. No evidence on any waiver of Section 17 in the Contract for Financial Assistance could be found either at the local Authority or the State Housing Board.

In this same connection, it was also noted that another member of the Assessor's office has been retained on a fee basis by the Authority for purposes of land appraisal.

This obvious disregard by the Authority of the terms of its contract with the Commonwealth should not be further countenanced by the State Housing Board, and the aforementioned invoice should be forthwith disapproved.

**General - Position Schedule Bond:** The State Housing Board entered into an agreement with an insurance company to provide a so-called blanket bond covering the employees of all Authorities throughout the Commonwealth in the individual amount of \$10,000.00. The premium the Chelsea Authority paid for coverage under this bond has amounted to \$20.50 for three years.

The State Housing Board notified this Authority to increase its coverage on the check-signer by \$15,000.00, the counter check-signer by \$15,000.00, and the staff accountant by \$7,500.00, stating that this additional coverage was necessary to cover the increased borrowings of the Chelsea Authority. The additional premiums on this \$37,500.00 have cost the local Authority \$176.33.

Other Authorities audited by this department have borrowed as much and even more than the Chelsea Housing Authority and have not been required to increase their bond coverage. The Chelsea Authority should have refused to take out the additional coverage.

**General - Insurance Coverage:** An examination of the insurance policies of the Authority indicated that duplicate coverage exists in some instances. In this connection it was noted that a policy was purchased to cover refrigerators on Project 200-2 for robbery and damage while in a bonded warehouse, in transit on the warehouseman's vehicles and while in the apartments of the project before they were occupied. The purchase of this policy at a premium of \$150.00 is obviously a waste of public funds since the only coverage that might possibly be required would be for those few days while the refrigerators were in vacant apartments. To pay \$150.00 for coverage while in a bonded warehouse or in the custody of the carriers of the warehouseman is ridiculous.

It is recommended that the Authority review its insurance coverage for the purpose of canceling out duplicated policies.

**General - Materials Inventory:** It is the policy of the Authority to purchase materials for Repairs, Maintenance and Replacements whenever these items are needed. This makeshift arrangement makes it necessary for a maintenance man to make individual trips to purchase supplies for each job. It is recommended that a supply of commonly used items be carried and that a control of these supplies be maintained through a materials account as prescribed in the Manual of the State Housing Board. It is further recommended that an inventory be made of the tools now in the possession of the maintenance employees and any additional issues be charged directly to them.

**General - Repairs, Maintenance and Replacements:** It was noted that many bills paid for Repairs, Maintenance and Replacements resulted from negligence of tenants and in no instances has any attempt been made to charge the responsible tenants for necessary work.

Since the cost of ordinary Repairs, Maintenance and Replacements is a large item of expense in management, it is recommended that these items be analyzed and if it is found that they resulted from negligence of the tenants, they should be required to pay these costs.

**General - Proration of Salaries and Other Expenditures:** As commented on in the previous audit report, salaries and other expenses are not being prorated among the various projects. The following are examples:

1. Salaries of maintenance men are being paid from funds of Chapter 372 although they perform work at all projects.
2. An employee who was originally hired to investigate applicants for apartments in Project 200-2 is now working as an assistant to the Executive Director. His salary is still being charged to Tenants' Selection Costs in Project 200-2 although his duties at the present time are of a clerical nature and affect all projects, both State and Federal.
3. The premium paid by the Authority for additional coverage under its performance bond was charged to Project 200-1 although this additional coverage affected all State projects.

It is recommended that all expenditures which affect more than one project be prorated on some equitable basis. The Authority now operates two projects under Chapter 200, one project under Chapter 372, and has two projects in the construction stage under the Federal Government's program. To facilitate the proration of expenditures it is recommended that funds be advanced from all projects for the purpose of setting up a Revolving Fund from which such disbursements can be made.

**Project 200-1 - Law Suit by Former Executive Director:** It was noted that the former Executive Director who was engaged on February 21, 1949 on the basis of a four year contract was dismissed on July 8, 1949 by the Authority. He entered suit on his employment contract and was awarded liquidation damages, which was upheld by the State Supreme Court, in the amount of \$4,566.45 which included salary, interest and costs to June 12, 1950. This amount together with additional interest was finally paid on August 23, 1951.

It was further learned that the Authority voted to order this employee to return to his duties on May 28, 1951, apparently because the court held that his employment contract was still in effect. He, however, advised the Authority that he could no longer honor his contract for employment. It is understood that at the present time, this former employee is attempting to collect further salary from June 12, 1950 to May 28, 1951, the date he was ordered to report to work.

**Project 200-1 - Dispute With General Contractor:** Although this project was fully occupied in 1949, the final payment was withheld from the general contractor because of a dispute. In an attempt to settle this matter, the Authority voted to submit the problem to an arbitrator appointed by the Chairman of the State Housing Board, as provided for in the construction contract.

On October 9, 1950, the Authority authorized its Attorney to sign the Arbitration Agreement and voted to ratify all his previous acts in connection with this case. Subsequently, it also authorized its Attorney to sign two extensions of this agreement.



The Arbitrator filed his findings, which included the following in the Superior Court on December 29, 1950:

Items in Favor of the Authority:

One coat of outside paint on 6 buildings @ \$210.00	\$1,260 00
Inside painting of 8 apartments @ \$55.00	440 00
Liquidated Damages (Time)*	<u>1,780 00</u>
Total for Authority	<u>\$3,480 00</u>

\* This was determined by the Chairman of the State Housing Board

Items in Favor of the Contractor:

Contract Retentions	\$47,389 04
Contractor's error in submitting heating sub-contractor's bid	12,000 00
Total for Contractor	<u>\$59,389 04</u>
Net Amount to be Paid by Authority to Contractor	<u>\$55,909 04</u>

This finding was appealed by the Attorney for the Authority even though he should have known when he signed the Arbitration Agreement that he was signing away all his rights both as to matters of fact as well as matters of law.

On April 23, 1951, a Superior Court judgement was handed down in favor of the contractor in the amount of \$56,980.58, which consisted of the foregoing amount plus accrued interest.

In this connection it was noted that the Attorney for the Authority contemplating further legal action requested an opinion of the Attorney General in regard to withholding payment of the judgment. On May 3, 1951, the Attorney General submitted his opinion which reads in part:

"It is my opinion, based on the foregoing that the execution in question cannot be attached collaterally by dependence on the contract which was the subject of the litigation on which the judgement is based. The defense now offered, could and should have been offered in the original action. I know of no way in which the Chelsea Housing Authority may legally withhold payment of this execution."

Consequently, payment was made finally on May 15, 1951, in the amount of \$57,186.65 which included a further interest accumulation of \$206.07.

GLOUCESTER HOUSING AUTHORITY

REPORT No. 52-H-19

General - Books of Accounts: All books of record were maintained by a bookkeeper, except for the fact that regular entries are augmented by a private accountant, who, each month, checks the records and prepares adjusting and distribution entries. This private accountant also prepares a monthly balance sheet and statement of "Analysis of Development Cost."

Central Office Account: An account is being maintained which is known as the "Central Office Account" and which is actually a Revolving Fund. The purpose of the account is to distribute expenditures among the various projects' accounts, where individual expenditures are not actually chargeable to one project. These expenditures include those made for the following projects:

- Temporary Project - Riverdale Park 200-1
- Remodeling Project - Riverdale Park 200-1A

An analysis of this account indicated the following:

1. The account had not been posted as to the distribution of expenditures, since March 1951.

2. Entries had been made in the cash column, however, this column was not used as a control for the bank account. This cash column had not been footed for several months and the incorrect basis of using the check book resulted in charges not appearing in the cash column for several bank service charges, although they were entered in the check book. These differences totaled \$13.82 and were adjusted when brought to the attention of the bookkeeper.
3. Many unnecessary entries of distribution, involving several percentage distributions, on each check, were being made. As there are 40 to 50 checks issued each month, it is necessary to calculate each entry and then make the distribution. It is suggested that instead of distributing each check, that two columns be established and the distribution made at the end of the month from the columnar totals.
4. While this account serves as a Revolving Account, it is not handled in the usual manner. Advances were originally made from the four project accounts to establish the cash of the Central Office Account, yet when payments are made, reimbursements from each account for the expenditures made for them were not obtained and therefore the original cash advance is not maintained.
5. It was also noted that this account had not been reconciled for several months.

**Discounts Not Realized:** Several instances were noted of discounts not being realized because certain bills were not approved for payment by the members of the Authority in sufficient time to take advantage of discount terms. It is understood that this practice has been corrected by allowing the bookkeeper to pay such bills as received.

**Deposit of Rents Collected:** It was noted that rents collected were held and not deposited for from two days to one month after collection, and it was explained that these funds were being used in payment of expenses for other purposes prior to actual approval. When approval is secured for these expenditures, reimbursement is made to the fund and the deposits are then made. This practice is most unusual and should be immediately discontinued. All monies collected should be deposited promptly.

**Employees:** It was noted that certain employees have been employed with the approval of only the Executive Director and without the approval of the other Board Members. All approvals should be made by the Board.

**Bids for Contracts:** It was noted that in many instances bids were not advertised and many were handled by the architect at his office. In several cases copies of the bids were not available for audit. It is also suggested that when bids are opened at the architect's office a member of the Authority should be present and copies of all bids should be available in the office of the Authority.

**Insurance:** It was noted that in a few instances duplicate insurance coverage existed. The duplicate policies included the following:

1. Robbery and Burglary Policy #8612305 American Employers' Insurance Co., running from May 27, 1950 to May 27, 1953, at a premium of \$155.00.
2. Fidelity Bond for Executive Director, Policy #F128346, running from March 18, 1951 to March 18, 1952 at a premium of \$10.00
3. Public Liability Policy #9106803 American Employers' Insurance Co., running from April 21, 1950 to April 21, 1953, at a premium of \$16.28 on vacant land.

Such duplications were brought to the attention of the Authority and the policies will be canceled and refunds secured.

**Stock and Material Records:** It is suggested that a record should be maintained showing receipts and disbursements of stock and material together with a record of where the stock is used, in order that the proper accounts may be charged.



**Material Stored:** It is suggested that separate accounts of materials stored should be established. The charges for them should be made to the respective projects as materials are used rather than as received.

**Maintenance:** It was noted that work which it would appear should be done by maintenance men was done by others. This work included the cost of connecting hot water heaters, etc.

**Payments to Board Members:** At a recent meeting of the Board it was voted that Members be paid one per cent of the total rental income from September 1950.

**Administrative Fund Account:** An analysis of this account indicated that the Repair, Maintenance and Replacements account included many items that should have been charged to Development Costs and that certain items also charged to this account should have been charged to Temporary Housing account. These errors have created an overpayment of surplus to the City of Gloucester. The importance of making the proper analyses of these charges cannot be too strongly emphasized.

**Rent Receipts:** Several receipts could not be located for use in connection with this examination. In order to verify income by audit, these receipt forms are essential and should a receipt be needed for any other purpose, copies should be retained.

**Water Seepage in Cellars:** The previous audit report indicated that water seepage was noted in various cellars of the project. Despite the fact that substantial funds have been expended in an attempt to correct this condition, the seepage persists.

**Architect's Fees:** It was noted that the architect had been overpaid in the amount of \$3,834.50. This is accounted for by the fact that the architect computed his fee on the estimated costs rather than on the lowest bid. Steps should be instituted to collect this overpayment. It is further noted that a directive issued by the State Housing Board indicated that no payment should be made to the architect before prior approval of the Board. The payments made to this architect however, were made without prior approval of the State Housing Board.

**Prepaid Rent:** Many rents have been prepaid and it is suggested that a prepaid rent account be set up so that balance sheets will show these balances in their true category.

**Delinquency Charges:** It was noted that by a vote of this Authority a delinquency charge of \$1.50 was established if rent is not paid by the fifth working day after its due date.

There appears to be some question as to the propriety of this charge. The matter was discussed with the State Housing Board who ruled no such charge of this nature can be made. Payments made will be refunded in the form of reductions in subsequent payments of rent.

## MILFORD HOUSING AUTHORITY

REPORT No. 52-H-20

**Permanent Financing:** The Development Fund and the Administration Fund - Initial Operating Period - were audited for the period from July 31, 1950 to September 30, 1950. On September 30, 1950, the balances of the above accounts were transferred to the Management Accounts and they were audited for the period from October 1, 1950 to September 30, 1951.

At the end of the Initial Operating Period, the cash balance in the Development Fund was \$11,268.58. Of this amount, \$7,064.21 was transferred to the Administration Fund for the retirement of temporary notes and accrued interest on notes. The remaining amount of cash substantially represented the outstanding liabilities of \$4,204.37 at September 30, 1950.

On the same date, the cash balance in the Administration Fund - Initial Operating Period - totaled \$17,599.54. This amount represented a transfer of surplus from profits of the initial operating period of \$5,936.54 and accrued reserves, etc. totaling \$11,663.00.

Attention is also called to the fact that the temporary outstanding notes were reduced \$11,000.00, at that time, in the following manner:

Temporary Financing Notes	\$755,000 00
Permanent Financing - Bond Issue	<u>744,000 00</u>

Excess Amount of Notes	\$ 11,000 00
Accrued Interest on Notes	2,000 75
	<u>\$13,000 75</u>
Transfer of Cash	\$ 7,064 21
Surplus from Operation Applied	5,936 54
	<u>\$13,000 75</u>

As was indicated, this Authority went into so-called Permanent Financing on October 1, 1950, with the issue and sale of bonds totaling \$744,000.00. The purchaser of these bonds was Phelps, Fenn & Co., Lehman Bros., R. W. Pressprich & Co., Goldman, Sachs & Co. and Associates, with a bid of 1 3/4% and a premium of \$5,952.00, reducing the interest charges to a net of 1.71491%. This appeared to be the most advantageous bid of those seen.

The Commonwealth of Massachusetts may make an annual contribution of not more than 2 1/2% of the Development Costs. This contribution for the first year of operation under permanent financing was \$18,600.00 and represents 2 1/2% of the adjusted Development costs of \$744,000.00.

This contribution was paid to the National Shawmut Bank of Boston, the fiscal agent for the Authority on March 19, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenants' net family income, as follows:

Graded Rent Schedule:

<u>Annual Tenant Income</u>	<u>Monthly Rent</u>
Up to \$2,500 00	\$33 00
\$2,501 00 to 3,000 00	36 00
3,001 00 to 3,500 00	40 00
3,501 00 to 4,000 00 (Maximum Admission)	46 00
4,001 00 to 4,300 00 (Continued Occupancy)	52 00
Over 4,300 00 (Ineligible - Penalty Rent)	69 00

Rents actually charged ranged from \$33.00 to \$46.00 with an average monthly rental charge of \$37.42.

Utility Charges: Each tenant pays for his own utility costs.

Profit from Operations: Attention is directed to the fact that the records indicate a profit from operations of \$4,978.72 for the first year of operations under permanent financing, after computing the subsidy contribution of \$18,600.00.

On this basis, it would appear that either the rent schedule or the subsidy payment will be accordingly reduced in subsequent periods.

STOUGHTON HOUSING AUTHORITY

REPORT No. 52-H-21

Rents: Under the Management Program adopted by this Authority and approved by the State Housing Board, percentages of net income and net income limits used in computing rents and determining eligibility for this project are as follows:

Percentage of Net Family Income

For families with one or less minor dependents	18%
For families with two minor dependents	16%
For families with three or more minor dependents	14%



Admission Amounts

For families with one or less minor dependents	\$3,250 00
For families with two minor dependents	3,375 00
For families with three or more minor dependents	3,500 00

Continued Occupancy Limits

For families with one or less minor dependents	3,750 00
For families with two minor dependents	3,875 00
For families with three or more minor dependents	4,000 00

Minimum Rents

For families with one or less minor dependents	\$30 00
For families with two minor dependents	26 50
For families with three or more minor dependents	23 50

Bookkeeping: It was noted that certain disbursements were not being posted to the proper expense accounts. This matter was called to the attention of the proper personnel and it is understood that henceforth correct postings will be made.

General - Construction Contract: It was noted that the general contract which had been awarded as of May 11, 1950 for the construction of this project had been terminated because of "breach" by this Authority as of January 4, 1951. The following reasons were indicated for this action:

".....especially having failed to supply enough properly skilled workmen and material, and failed to make prompt payments to the Subcontractors, and persistently disregarded instructions of the local Authority and Architect, and failed to observe and perform the provisions of the Contract."

The bonding company with the permission of the local and State Housing Authorities assigned this contract to another concern.

As of the date of audit, this contract had not been entirely completed, and final payment is still being withheld.

## WALPOLE HOUSING AUTHORITY

REPORT NO. 52-H-22

Development Fund - Overpayment: It was noted that the invoice submitted by the architect for final payment for extra work was overpaid in the amount of \$10.00.

It is suggested that steps be taken to obtain a refund of this item.

Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited from July 31, 1950 to December 31, 1950. As of December 31, 1950, the balances of both funds were transferred to the Management Accounts, under Permanent Financing and were audited from January 1, 1951 to October 31, 1951.

The cash balance in the Development Fund on December 31, 1950 was \$6,362.78, and was distributed as follows:

Transferred to Debt Service Fund toward Retirement of Temporary Notes	\$1,815 83
Held for Payment of known Accounts Payable	3,039 95
Accrued Interest on Notes Outstanding to December 31, 1950	1,457 00
Bid Deposit on Hand	50 00
	<u>\$6,362 78</u>

It was also noted that there was a variance between the total of the temporary notes outstanding and the bonds issued under Permanent Financing of \$6,000.00. This variance was applied as follows:

Temporary Notes	\$500,000 00
Bond Issue	<u>494,000 00</u>
Excess Amount of Notes	<u>\$6,000 00</u>
Transfer of Cash	\$1,815 83
Surplus Applied from Administration Fund	<u>4,184 17</u>
	<u>\$6,000 00</u>

The cash balance in this Administration Fund on December 31, 1950 totaled \$6,068.42. This amount was distributed as follows:

Surplus Applied to Reduce Amount Required for Issue of Bonds	\$4,184 17
Operating Reserve	1,433 00
Accrued Payments in Lieu of Taxes (Part)	<u>451 25</u>
	<u>\$6,068 42</u>

The item set up under the Operating Reserve, was done at the suggestion of the State Housing Board, and was not predicated on any pre-arranged basis.

The Walpole Housing Authority has entered into permanent financing January 1, 1951 with an issue and sale of bonds in the amount of \$494,000.00. The purchaser of these bonds was The First National Bank of Chicago and Associates with a bid of 1 3/4%, with a premium of \$7,642.00, reducing the total interest cost to \$189,268.00. This appeared to be the most advantageous bid of those seen.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the Development costs. This contribution for the first year of operation under permanent financing was \$12,350.00, computed at 2 1/2% of the total adjusted development costs of \$494,000.00.

This contribution was received by the Second National Bank of Boston, the fiscal agent of the Walpole Housing Authority, on June 21, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent will be held for six months and nine days before any payments are made from it. No arrangements have been made to have interest paid or credited for the use of these funds.

Rents: Rents for the respective units are based on the tenants' net family income, as follows:

For families with 2 children or less and an annual income of less than \$2,000.00, rent of \$30.00 per month is charged. For every increase of \$100.00 in family annual net earnings, rent charges are correspondingly increased by \$1.50 per month.

For families with 3 children or more and an income of less than \$2,000.00 a rent of \$23.50 is charged. For every increase of \$150.00 in annual net earnings, the rent charge is correspondingly increased in the amount of \$1.75 per month except for the first \$100.00 of added income where the rent increase is only \$1.50 per month.

Each tenant is billed directly by the utility company.

Each tenant also has his own oil-fired furnace and supplies his own fuel.

Rents charged actually range from a minimum of \$23.50 to a maximum of \$51.00 with an average monthly charge of \$39.79.

Admission and continued occupancy limits have been established as follows:

	<u>Admission</u>	<u>Continued Occupancy</u>
Families with less than three minor dependents	\$3,250 00	\$3,750 00
Families with three or more minor dependents	3,500 00	4,000 00

For the first ten months of operations it was noted that a loss of \$1,501.06 developed, before the receipt of the subsidy from the Commonwealth and before provisions were made for operating and debt service reserves.



## SWAMPSCOTT HOUSING AUTHORITY

REPORT No. 52-H-23

**Accounts Payable Development:** It was noted that a total of \$1,369.73 which had been set up as accounts payable on account of Development Costs were actually paid with Administration Fund cash. This resulted in an overstatement of the Development Fund cash and an understatement of the Administration Fund cash in that amount as of the date this project went into Permanent Financing.

**Petty Cash:** It was noted that the amount of \$20.00 was withdrawn from the Development Fund and was used for the purpose of creating a Petty Cash Fund. Inasmuch as all Development Fund cash should have been used only for Development Fund obligations, this amount should have been deducted from the Administration Fund cash.

**Tenants' Accounts Receivable:** While records of the Authority indicated that there was cash received from tenants in the amount of \$13,129.70, this amount actually included \$15.00 in miscellaneous income received from lease of land, and another \$21.00 which could not be identified.

**Cash Receipt Register:** Attention is called to the fact that the cash book does not always designate the source of income received. It is suggested that all items be properly identified when the original entry is made.

**Annual Report:** Section 26U of Chapter 121 of the General Laws, as amended, provides that housing authorities shall make an annual report in the month of January to certain State and municipal officials. It was noted that no such report for the calendar year 1950 had been made to date of audit by this Authority. This matter was discussed with the Executive Director, and it was understood that steps are being taken to prepare this report.

**Maintenance Supplies and Materials:** It is suggested that stock ledger control cards be maintained for certain maintenance supplies and materials.

**Rent Receipts:** It was noted in many instances that cash received for rent was not deposited in the bank promptly, and that several rent receipts did not show the date or the signature of the person receiving the money, while in several instances tenants did not receive official rent receipts. It is suggested that the foregoing practices be eliminated.

**Minutes of the Meetings:** Minutes of this Authority's meetings were not immediately available in connection with this examination for the period between August 9, 1949 and April 11, 1951 and it was learned that they were in the custody of the attorney of the Authority, apparently to be typed in legal form. When they were finally received they were complete only through the meeting held on November 15, 1949 and the minutes from November 22, 1949 to July 25, 1950 were still typed on various loose sheets of paper while the minutes from August 1, 1950 to April 4, 1951 were still written in pencil in a loose form.

The minutes of meetings from April 11, 1951 to October 31, 1951 were properly entered in the minute book and it is suggested that all minutes of the Authority be brought to a current basis and maintained in the manner prescribed by the State Housing Board.

**Purchase of Materials, Supplies or Work:** Attention is called to the fact that this Authority has not adhered in every instance to the Purchasing Policies of their Management Program. In this respect this program states:

- "b. All purchases and contracts involving a sum of not less than \$25.00 and not more than \$150.00 shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors.
- "c. All purchases and contracts involving a sum in excess of \$150.00 shall be made only after invitation for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

The following items were purchased without first obtaining competitive bids:

- a) It purchased 7031 gallons of oil from an oil company at a cost of \$108.35.
- b) A safe in the office was opened and a new lock installed at a cost of \$50.00.
- c) A trucking contractor was engaged to move 36 ranges and refrigerators and to clean up the site at a cost of \$248.00.

It is suggested that the Management Program should be closely followed.

Amounts Reimbursable by Contractor: A bill submitted by a trucking contractor in the amount of \$248.00 was incorrectly computed. As a result an overcharge of \$15.00 was made to the Authority. It is suggested that steps be taken to obtain a refund of this amount.

In connection with this same item attention is directed to the fact that the Authority paid also for cleaning up the site. It would appear, that the general contractor is liable for this charge as specifications state under General Conditions - Section 31 as follows:

"Removal of Debris, Cleaning, etc.: The contractor shall as directed during the progress of the work, remove and properly dispose of the resultant dirt and debris, and keep the premises reasonably clear. Upon completion of the work, he shall remove all equipment and unused materials provided for the work, and put the buildings and premises in a neat and clean condition, and do all cleaning and washing required by the Specifications."

It was also noted that on June 13, 1950 a disbursement was made in the amount of \$45.31 to the electrical sub-contractor of this project for furnishing electric lamps. In this connection, attention is also directed to the following extract from Division 11 "Electric Work" of his contract specifications:

#### "Electric Lighting Systems

Furnish, install and connect Dwelling Unit Service Centers, cable, cable supports, outlet boxes, lighting fixtures complete with glassware and lamps, shades, receptacles, switches, and all necessary fittings, plates, covers and appurtenances for a complete residence wiring system."

It was further noted that a disbursement was made on July 5, 1950 to the same electrical sub-contractor in the amount of \$216.00 for furnishing and installing electric range cords. Under Division 11, "Electric Work" in his contract specifications the scope of the work includes the following:

"The work to be completed under these specifications shall include the furnishings of all labor and material to complete the installation of the following items, in accordance with these specifications and the accompanying drawings.

- a. Wiring for light and power to all outlets, devices and equipment.
- b. Wiring for doorbells.
- c. Lighting fixtures.
- d. Electric Ranges."

Attention is also called to the fact that a change order in the amount of \$255.60 was paid without obtaining the approval of the State Housing Board.

It was also noted that this Authority paid to a certain firm the sum of \$30.00 for the testing of bituminous concrete. As a result it was found that the content was not up to specifications. Under Division 4 of the Construction Contract, Paragraph B states as follows:



"The contractor shall be charged with any costs of additional tests when the material tested does not meet specifications."

It was also learned that the Authority paid to the Town of Swampscott a water bill of \$8.85 for water used by the general contractor while he was in control of premises before the apartments were occupied.

It is also suggested that the payment of all bills due the contractor be withheld in conformance with the General Guaranty under the Contract specification which states, in part as follows:

"The Contractor or his sureties shall remedy any defects in the work and pay for any damages to other work resulting therefrom which shall appear within a period of one year from the date of final acceptance unless a longer period is specified."

It is further suggested that steps be taken to obtain reimbursement of amounts paid as heretofore indicated.

**Storage of Ranges and Materials:** Attention is called to the fact that the Authority paid for storage space in a privately owned garage for a period longer than was actually necessary. It is estimated that approximately \$120.00 was needlessly expended in this direction.

**Waiver of Section 17 of Contract for State Financial Assistance:** Attention is called to the fact that the Authority requested the State Housing Board to waive Section 17 of the Contract for State Financial Assistance which states that:

"No member, officer, agent, servant, or employee of the Authority or of the City or Town in which the project is located, shall have any interest, direct or indirect, in any contract for property, materials, or services to be acquired by the Authority or furnished or used in connection with the project."

The Chairman of the State Housing Board waived this condition as per his letter of May 4, 1951, in order that the Authority might employ as its Executive Director one who is also an employee of the Swampscott Water Department.

**Change Order #13:** Attention is called to the fact that this work which involved the construction of subdrains and which was originally estimated by the contractor to cost \$4,624.50, on completion was found to cost \$14,513.49. A change order in the latter amount was denied by the Chairman of the State Housing Board. Although this matter has been the subject of many conferences and discussions between the architect, contractor, the local Authority and the Chairman of the State Housing Board the bill had not been paid to the date of audit.

**Pay Roll Records:** It was noted that no time sheets or other pay roll records, indicating the hours actually worked by employees of the Authority, were available. Steps should be taken to see that detailed records of this nature are provided.

The maintenance man should provide a more detailed record of the work performed by him. This is suggested because he is employed on a part-time basis and is paid only for hours actually worked.

**Development Costs:** It was noted that although this project was originally planned to cost \$414,000.00, with a unit cost of \$11,500.00, it now appears that the actual final cost is approximately \$406,000.00, with a unit cost of \$11,278.00.

**Permanent Financing:** The initial operating period of Project 200-1 ended on December 31, 1950 with the issue of bonds under so-called Permanent Financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$6,311.00 was in the aggregate amount of \$406,000.00. This amount represented the total Development Cost, less a part of the surplus from operation of the initial operating period in the amount of \$3,281.98.

It was further noted that the books for the initial operating period were closed as of December 31, 1950, and new accounts under Permanent Financing were opened as of January 1, 1951.

In this connection attention is called to the fact that at the end of the initial operating period the cash balance in the Administration Fund was represented as \$8,842.11. At this time accounts payable totaling \$6,437.32 were represented in the records.

In further connection with this matter it was noted that the cash balance in the Development Fund on that date totaled \$27,560.24. Unpaid obligations incurred during Development amounts to \$35,307.12. This amounts to a cash deficit of \$7,747.08, which was made up from cash received from the Administration Fund for Accounts Payable of \$4,005.75, and a Debt Service Fund Transfer of \$3,741.33.

This Housing Authority has received a subsidy of 2 1/2% of the Certified Development costs as the first annual Commonwealth Contribution. This amount was paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of this subsidy payment which is paid to the Fiscal Agent will be held by him for six months and fifteen days before any payments are made from it. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

Rents - Chapter 200 - Project 200-1: The rents in this project are computed as follows:

Families with less than 3 minor dependents	18%
Income on Admission Limits	\$3,250 00
Income on Continued Occupancy	3,750 00
Minimum Rent	30 00 per month
Families with more than 3 minor dependents	14%
Income on Admission Limits	\$3,500 00
Income on Continued Occupancy	4,000 00
Minimum Rent	23 50 per month

It is now estimated that this rent will be adequate to cover the cost of the project. Annually each tenant's income is verified and the rent is adjusted to reflect any changes.

It was noted that the operating budget for this project estimated the average rent at \$36.19 per month.

#### AMESBURY HOUSING AUTHORITY

REPORT No. 52-H-24

Loss of Discount: In many instances it was noted that discounts were lost because payments were not authorized by Board Members in time to take advantage of the discount period. It is understood that losses of this nature will not recur because the Executive Director has been authorized to pay all bills as they are received.

Inspection of Project: While visiting the project, it appeared that the exterior painting was poor and the project will probably require immediate attention in this regard. The matter was discussed with members of the Authority and it was indicated that it will be brought to the attention of the painting contractor. As these houses have been occupied less than a year it certainly appears that it is the responsibility of the painting contractor to remedy the situation.

Expense: It was noted that on occasions three to seven members and employees of this Authority used their personally owned automobiles to travel to Boston to attend conferences on the same days, resulting in extra costs. It would seem that these transportation facilities should have been pooled in the interests of economical management.

Express Charges: It was noted that an express charge of \$46.00 was paid for the delivery of 27 Hot Water Heaters. These charges should not have been paid by the Authority for delivery of these heaters as under the contract in effect, delivery was to have been made by the contractor. It is recommended that steps be taken to obtain reimbursements of this amount.

Petty Cash Fund: The books reflected a balance of \$65.00 in this fund. Actually the account had been closed for over five months and should have been cleared from the books as the fund had been entirely expended. The vouchers were examined and found to be in order with the exception that an item of \$3.20 which had been paid as overtime wages to a



night watchman by agreement with a contractor on a reimbursable basis had not been refunded to the date of audit.

As the expenditures from this fund were chargeable to Development Costs they should have been so distributed prior to the time the project went into Management.

It was suggested to the Executive Director that the necessary adjustments be made.

**Permanent Financing:** The Development Fund and the Administration Fund - Initial Operating Period - were audited for the period from June 30, 1950 to June 30, 1951. On June 30, 1951, the balances of these accounts were transferred to the Management Accounts and they were audited for the period from July 1, 1951 to October 31, 1951.

At the end of the Initial Operating Period, the cash balance in the Development Fund was \$253.22 at which time there were accounts payable, etc., totaling more than \$16,000.00. On the same date, the cash balance in the Administration Fund, totaled \$4,883.34. When bonds were issued under Permanent Financing, transfers were made to the Development Cost account as follows:

Total Development Costs	\$263,926 64
Less:	
Net Income (Initial Operating Period)	2,128 64
	<u>\$261,798 00</u>
Add:	
To Round off and Provide Working Capital	202 00
Bonds Issued	<u>\$262,000 00</u>

In connection with the foregoing attention is called to the fact that immediately previous to June 30, 1951, there was outstanding temporary notes totaling only \$250,000.00 although the Contract for Financial Assistance totaled \$285,000.00. The variance between the indebtedness under Temporary and Permanent Financing was established as follows:

Outstanding Notes Retired	\$250,000 00
Interest on Outstanding Notes	2,566 46
	<u>\$252,566 46</u>
Cash Balance - To Development Fund	9,433 54
	<u>\$262,000 00</u>

Actually there was received in cash under the new bond issue \$265,292.21 taking into consideration the bond premium and accrued interest.

As was indicated, the Authority went into Permanent Financing on June 30, 1950 with the issue and sale of bonds totaling \$262,000.00. The purchaser of the bonds was Lehman Bros., Phelps, Fenn and Co., and Associates with a bid of 2 1/8% and a premium of \$2,905.58. This appeared to be the most advantageous bid of those seen.

The Commonwealth of Massachusetts may make an annual subsidy contribution of not more than 2 1/2% of the Development Costs. This contribution, for the first year of operation under Permanent Financing, will be in the maximum amount of \$6,550.00 representing 2 1/2% of \$262,000.00. This contribution, in due time, will be paid to the Second National Bank of Boston, the Fiscal Agent for this Authority.

In this respect attention is called to the fact that approximately 85% of the subsidy payments which are paid to the Fiscal Agent will be held by him for six months and fifteen days before any payments are made from it. At the present time, no arrangements have been made to have interest paid or credited by the Fiscal Agent for the use of these funds, although it is understood that it is anticipated that other arrangements will be made in subsequent bond issues which the State Housing Board will supervise.

STONEHAM HOUSING AUTHORITY

REPORT NO. 52-H-25

**Project 200-1 - Permanent Financing:** This project was accepted by the Authority on October 31, 1950, the State Housing Board approved this acceptance on November 22, 1950 and final payment was made to the contractor on December 13, 1950.

The final development cost of this project was determined to be \$512,000.00. Bonds, maturing serially for forty years, for this amount were issued by the Authority. To meet the interest and principal payments of these bonds, the Authority makes monthly payments to the fiscal agent. On May 15, 1951 the Commonwealth made its first contribution of 2 1/2% of the development cost which amounted to \$12,800.00.

On January 1, 1951 when Permanent Financing became effective, there was a cash balance in the Development Fund of \$14,751.16. This balance was disposed of as follows:

Balance of Cash, January 1, 1951	\$14,751 16
Received to October 31, 1951:	
Accounts Payable - Administration	1,000 00
Accounts Receivable - Administration	1,181 59
	<u>\$16,932 75</u>
Distributed:	
Transfer to Debt Service Fund	\$15,332 75
Accounts Payable	1,509 53
Accounts Receivable - Management	37 50
	<u>\$16,879 78</u>
Balance in Bank, October 31, 1951	52 97
	<u>\$16,932 75</u>

The balance of cash in the Administration Fund on January 1, 1951, totaled \$9,464.26. This amount was used as follows:

Operating Reserve	\$5,515 00
Tenants' Security Deposits	1,200 00
Accrued Payments in Lieu of Taxes	654 00
Accounts Payable	2,079 76
Withholding Taxes	15 50
	<u>\$9,464 26</u>

The Authority's payments together with the Commonwealth's contribution will be sufficient to meet the interest payments and retiring of the bonds coming due the first year. Any surplus derived from the operation of the project in any year should be used to reduce the Commonwealth's contribution in the following year.

**Project 200-2 - Accounts Payable:** It was noted that certain expenses of Project 200-2 were paid from the funds of Project 200-1. While the Account Receivable was set up on the books of Project 200-1, the reciprocal Account Payable was not entered on the books of Project 200-2.

It was further noted that funds in the amount of \$65.50 were paid from Project 200-1 for other expenses of Project 200-2.

It is recommended that the proper adjusting entry be made for the correction of these erroneous entries.

**Project 200-2 - Overpayment to Architect:** It was noted that the Architect was apparently overpaid in the amount of \$99.84.

It is suggested that steps be taken to obtain a refund of this amount.

**Town Grant Fund:** This fund in the amount of \$3,000.00 was appropriated by the Town of Stoneham to pay preliminary expenses of housing projects contemplated by the Authority. At the present time this fund is in the custody of the Town Treasurer, it is still available to the Authority upon request.

Since the Authority states that it is not going to construct any further projects, it is suggested that steps be taken to revert this fund to the town.

**General - Rents:** The shelter rent on the dwelling units of the two projects operated by this Authority are calculated on the 18% and 14% basis. That is, 18% income for families with less than three minor dependents and 14% income for families with three or more minor dependents.

Project 200-1 has been occupied for 17 months and the scale of rents for the month of October, 1951 was from \$30.50 to \$47.00. The average monthly rental for the period of this audit was \$38.98.

Project 200-2 has been occupied for only two months as of the date of audit. The scale of rents for this project for the month of October, 1951 was from \$34.00 to \$52.50. The average rental charge for the two months of occupancy was \$39.24.



## EVERETT HOUSING AUTHORITY

REPORT No. 52-H-26

Escrow Fund - Coburn Estate: On December 30, 1949, the Authority acquired title to land known as the Coburn Estate which will ultimately be used for the purpose of building an additional housing project.

At the present time, income is being derived from renting parts of this property, as follows, to two tenants:

Tenant "A"	\$ 35 00 per year
Tenant "B"	600 00 per year

This income is being deposited in a bank in an "escrow" account. It is understood that this is being handled in this manner because if the land should ever revert to the City, the income during the interim would also be reverted. The balance in this account as of date of audit was \$1,015.00.

It is again suggested that this income be reflected on the books of the Authority and all expenses incurred in connection with efforts to obtain any approvals for its use in connection with a housing project be charged to it.

The Authority is now negotiating for a Federal project to be constructed on this site. In this connection an expenditure of \$125.00 was made from the funds of Project 200-1 which should properly have been made from the Escrow Fund.

Project 200-1 - Petty Cash Fund: It was noted that expenditures are being made from this fund that are properly applicable to Project 200-2. The necessary adjustments should be made as soon as possible.

Project 200-1 - Repairs, Maintenance and Replacements: It was noted that many charges to this account were for work which apparently became necessary because of the negligence of certain tenants.

It is recommended that all items of this nature be reviewed to determine whether the tenant is at fault. If it is so determined, it would seem only fair that the tenant be required to pay for these damage repairs.

General - Position Schedule Bond: The binder on this bond was not available in connection with this examination and after checking the matter with the State Housing Board, it was determined that such coverage did not exist.

It is, therefore, recommended that the Authority obtain the necessary coverage as soon as possible.

Projects 200-1 and 200-2 Development - Accounts Payable: It was noted that the funds of Project 200-1 Administration were used to meet the expenses of the pay roll on Project 200-1 and Project 200-2 Development. Accounts Receivable were established for that portion of the pay roll items not applicable to this account. It was noted, however, that reciprocal Accounts Payable were not set up on the Development books of Project 200-1 and 200-2 and, therefore, caused an understatement of the liabilities. It is suggested that the necessary adjustments be made.

Project 200-1 - Development: It was noted that \$6,087.99 representing operating expenses had been charged to this account. These items should have been charged to the Administration Fund.

Projects 200-1 and 200-2 - Prepaid Rents and Administration Fund: It was again noted that the accountant for the Authority enters the cash receipts by posting directly from the bank statement. Because of this arrangement, cash receipts in the amount of \$133.00 for Project 200-1 and \$132.50 for Project 200-2 which were received on October 31, 1951 and did not appear on the October bank statement, created an understatement of the cash balance as of that date. It is again recommended that cash be posted directly upon receipt to the cash book.

Project 200-2 - Architect's Fee: The contract with the architect indicated that his fee be computed on the basis of the lowest bid made in good faith. It was noted, however, that the architect in computing the fee had used this bid, yet the State Housing Board's computation is based on the actual contract award which is higher.

It is therefore, suggested that the State Housing Board revise its computation in accordance with the Authority's contract.

**Project 200-2 - Chief of Development:** The minutes of the Authority's meetings indicated that it had voted to employ the Executive Director for Project 200-1 as Executive Director of Project 200-2 at a salary of \$1,500.00 per annum. At a later meeting, however, it was voted that this individual be designated as "Chief of Development." Inasmuch as the Authority also employs a Clerk of the Works for this Project at a salary of \$125.00 per week, the advisability of this \$1,500.00 additional annual expenditure is questioned.

**General - Members of Authority:** In checking disbursements, it was noted that a payment of \$125.00 was made to a member of the Authority as expenses for a trip to Washington. There appeared to be no substantiating data supporting this disbursement and it is, therefore, recommended that this member submit vouchers for these expenses.

**General - Contract Retentions:** It was noted that all change orders and contracts are not posted to the account for Contract Awards. As a result of this, contract retentions totaling \$1,000.00 on Project 200-1 on account of change orders and \$2,227.88 on account of Ranges and Refrigerators on Project 200-2 are not reflected on the books of account.

It is recommended that all change orders and contracts be posted in accordance with the Manual issued by the State Housing Board.

## BROCKTON HOUSING AUTHORITY

REPORT No. 52-H-27

**General - Joint Expenses:** Attention is called to the fact that the cost of several small items, which should properly have been prorated among the expenses of the several projects, were charged in total to one particular project.

It is recommended that all joint expenses of this nature which benefit more than one project should be prorated on some prearranged equitable basis.

**Chapter 372 - Subsidy:** It was noted that because this project has not been finally approved by the State Housing Board, no subsidy has as yet been paid.

It was understood that the delay in certification was occasioned by the fact that certain legal actions which were made necessary in order to clear land titles are still pending.

**Chapter 372 - Surplus:** Attention is called to the fact that operating profit from this project for the year ended December 31, 1950 in the amount of \$7,201.90 was transferred in 1951 to the City of Brockton.

As of October 31, 1951 the operating surplus for the 1951 year to date totaled \$7,607.74.

**Project 200-1 - Permanent Financing:** The initial operating period of this project started February 3, 1950, the date of the first tenancy, and ended December 31, 1950, with the issue of bonds under Permanent Financing. In this connection, it was noted that bond issue at an interest rate of 1 3/4% was in the aggregate amount of \$1,150,000.00, the total adjusted Development Cost of the project, with a premium in the amount of \$17,790.00.

In this connection it was noted that of the profit from operations during the initial operating period, \$18,770.78 was used to reduce the amount necessary under the bond issue and \$9,320.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development account at that time was carried forward and was mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under temporary financing.

**Project 200-1 - Subsidy:** A subsidy in the amount of \$28,750.00, representing 2 1/2% of adjusted development costs of \$1,150,000.00, was approved for the Brockton Housing Authority by the Commonwealth for the year ending December 31, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No interest is paid or credited by the fiscal agent for the use of these funds.

**Project 200-1 - Rents:** Under the management program adopted by this Authority the schedules of rents and incomes for this project were established as follows:



	Admission Income Limit	Continued Occupancy Limit	Percentage of Income Used in Computing Rents	Minimum Rent
For families with one or less minor dependents	\$3,250.00	\$3,750.00	18%	\$30.00
For families with two minor dependents	3,375.00	3,875.00	16%	26.50
For families with three or more minor dependents	3,500.00	4,000.00	14%	23.50

Project 200-1 - Tenants' Security Deposits: It was noted that transactions affecting the receipts and the refunds of tenants' security deposits were not being reflected in the books of account.

In order to provide proper internal control over these items it is recommended that the accounting procedure as outlined in the Manual of Instructions issued by the State Housing Board be explicitly followed.

#### WORCESTER HOUSING AUTHORITY

REPORT No. 52-H-28

Project 200-1 - Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited from September 30, 1950 to March 31, 1951. As of March 31, 1951 the balances of both funds were transferred to the Management Accounts. At the end of the initial operating period the balance in the cash account of the Development Fund was \$26,994.92. This amount was applied on the records under Permanent Financing, as follows:

Accounts Payable	\$22,553 39
Accrued Interest on Notes	23,341 53
Contract Retentions	<u>1,100 00</u>
	\$46,994 92
Cash Available	<u>26,994 92</u>
Deficit Paid from Management Cash (Permanent Financing)	<u>\$20,000 00</u>

The balance in the Administration Fund on that date was \$47,966.27. This amount was applied under Permanent Financing as follows:

Accounts Payable	\$	185 70
Tenants' Accounts		7,050 17
Accrued Payments in Lieu of Taxes		1,160 00
Working Capital		781 44
Reserve for Insurance		8,120 10
Operating Reserve		<u>48,277 00</u>
		\$65,574 41
Less:		
Accounts Receivable:		
Sundry	\$17,153 39	
Tenants	454 75	17,608 14
Cash Balance		<u>\$47,966 27</u>

Attention is called to the fact that this balance of cash at the end of the initial operating period was completely applied, only after an operating reserve of \$48,277.00 was set up. This amount which was established only on the authority of the State Housing Board is obviously not based on any predetermined requirement and was handled in this manner, simply because it happened to be available.

Attention is also directed to the fact that the cash balance in the Development account as of the completion of the initial operating period was not sufficient to meet its obligations and therefore it was necessary that \$20,000.00 be used from Management Funds under Permanent Financing.

The Worcester Housing Authority entered into Permanent Financing with the issue and sale of bonds in the amount of \$2,720,000.00. The purchaser of these bonds was The Chase National Bank and Associates with a bid of 1 7/8%, with a premium of \$33,094.24 which reduced the total interest cost from \$1,169,756.25 to a net of \$1,136,662.01. This appeared to be the most advantageous bid of those seen.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the total Development costs. This contribution for the first year of operation under permanent financing was \$68,000.00 and was computed as follows:

Total Development Costs	\$3,220,000 00
Deduct:	
Capital Donation - City of Worcester	<u>500,000 00</u>
	\$2,720,000 00
Rate	<u>2 1/2%</u>
Amount	<u>\$68,000 00</u>

This contribution was paid to The National Shawmut Bank of Boston, the fiscal agent of the Worcester Housing Authority, on September 14, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Project 200-1 - Rents: Rents for the respective units are based on the tenant's net family income, as follows:

- 19% for families with less than three minor dependents
- 14% for families with three or more minor dependents

Irrespective of these rent-income ratios, minimum monthly rates have been established as follows:

- \$31.50 for families with less than three minor dependents
- \$23.50 for families with three or more minor dependents

Rents charged actually range from a minimum of \$23.50 to a maximum of \$76.00 with an average monthly rental charge of \$40.38. This does not include utility charges stated below:

Admission and continued occupancy limits have been established as follows:

	<u>Admission</u>	<u>Continued Occupancy</u>
Families with less than three minor dependents	\$3,650 00	\$3,900 00
Families with three or more minor dependents	3,900 00	4,300 00

Attention is called to the fact that during the initial operating period a surplus of almost \$50,000.00 was developed, despite the fact that rents appear to be less than the average usually noted for comparable accommodations. This would certainly indicate efficient financial management.

Project 200-1 - Utility Charges: Additional charges are made for utilities, as follows:

Heat and Hot Water:	
1 Bedroom Units	\$ 8 00 per month
2 Bedroom Units	9 50 per month
3 Bedroom Units	11 00 per month

Electricity:

The tenants are billed directly by the Utility Company.

Additional Charges:

Penalty rent of 2% is charged when any tenant exceeds his income limits as established and the tenant becomes ineligible for continued occupancy.

Project V-19116 - Transfer of Surplus: The Worcester Housing Authority operates a project known as Project V-19116 for the City of Worcester. At the end of the calendar year 1950 the records indicated a surplus of \$14,240.47 and this amount was transferred to the City of Worcester in April 1951.



**Other Charges:** A variance of \$150.80 was noted between the tenants' accounts receivable ledger at the project office and the control accounts at the central office. It was determined that this difference was due in many instances to entries for items such as shades, fuses, etc., not being recorded in the individual's account in the tenants' accounts receivable ledger.

This matter was discussed with the Auditor for the Authority, who it is understood will take the steps necessary to correct this situation.

**Chapter 200 - Legal Services:** Although the minutes of the Authority's meetings authorized the engagement and established the fee of an attorney, the contract form as prescribed by the State Housing Board for legal services was not available in connection with this audit.

**Chapter 200 - Tenants' Security Deposits:** Attention is called to the fact that a security deposit of \$25.00 was returned to a former tenant when he vacated his apartment even though he owed an amount of \$130.15 for rental in arrears. This amount should have been used to reduce the outstanding obligation.

#### SOMERVILLE HOUSING AUTHORITY

REPORT No. 52-H-29

**Revolving Fund:** While the audit was in progress the matter of establishing a "Revolving Fund" was discussed with the Authority's accountant who indicated that such a fund would be established.

It was suggested that the main purpose of this Fund should be to handle expenditures which are chargeable to more than one project.

**Maintenance of Accounting Records:** The accounting books of record are not being currently maintained. At the date of audit, the books had been posted only to September 30, 1951 for Chapter 372 and Project 200-1 and to October 31, 1951, for Project 200-2. The accounts of the first two projects are handled by the Authority's accountants, while the accounts of the last named project are handled by an outside accountant.

**Land, Buildings, etc. (Cost):** Attention is called to the fact that the development costs as indicated by records do not truly represent accurate accounts because of the following situations:

- a) **Amortization of Premium:** A premium of \$105,788.40 had been received on a note dated July 26, 1951. The total premium was credited to the Development Cost account "Interest in Development". This was in error as the premium should have been distributed over the life of the note - on the same basis as the interest payable on the note is accrued. The net result was that the books reflected a credit, in the interest account mentioned, of \$14,952.59 instead of a charge of \$54,606.89. Therefore the figures of Development Cost were reduced by \$69,559.48.

This matter was brought to the attention of the accountant for the Authority who agreed it was incorrect and took prompt steps to effect the necessary adjustments.

- b) **Transfer of Funds:** A transfer of \$60,000.00 was made from the Administration Fund to the Development Fund to reduce the amount of Temporary Notes issued preliminary to going into permanent financing. The transfer of funds was authorized by the State Housing Board.

It is felt that this manner of showing the above transfer of funds, in relation to Development Costs, resulted in a deflated cost since the \$60,000.00 was credited to "Working Capital" and the Development Costs were correspondingly reduced.

**Deposits of Bid Bonds:** It was noted that checks in the amount of \$759.00 are still being held by this Authority. These checks were submitted by bidders for contracts, specifications, etc. Steps should be immediately taken to determine whether these accounts should be forfeited or returned to the respective bidders.

**Boring and Test Pits Survey - Project 200-2:** It was noted in a report submitted by an Engineering Company which made this survey that of 18 borings taken, 15 indicated that rock and ledge were present, and that some of this ledge and rock was within three to five feet of the surface. As this information was available before the contract for Architectural Services was signed, it would seem that it should have been considered by the Architect at the time of his drawing up of plans and specifications. It is understood that because this matter was not completely taken into consideration, change orders during construction totaling \$160,462.57 were found necessary.

**Approval of Employment:** It was noted that certain maintenance employees are employed without the express approval of the Authority's board members. In this connection, attention is called to the fact that at a board meeting held while this audit was in progress, the members ratified the employment of all those not previously approved.

**Stock Records:** No stock or inventory records are currently maintained. It is recommended that such records be installed so a complete record of items purchased and expended, together with inventories on hand, will be available to prevent overstocking and possible loss. This stock record would also insure proper project distribution of charges for the items used.

**Income from Washing Machines:** It was noted that no verification was being made of the amounts of money taken from machines by the collectors for the concessionaire upon visits to the project for such purposes. No receipt was given to the Authority for the amounts so taken. Because of this, no verification was possible of the amounts received in payment of commissions. This matter was discussed with responsible employees and arrangements were made for the collector to call at the office where someone is assigned to make the rounds with him and count the amounts collected from the various machines.

**Credit from Edison Electric Illuminating Company of Boston:** Attention is called to the fact that the matter of a refund from this concern in the amount of \$9,600.00 which was discussed in the previous audit report is still pending. This item represents a credit for the installation of 240 electric stoves at \$40.00 per unit.

It is understood that this payment is being contested because the Electrical Contractor contends it is due to him rather than to the Authority.

At a meeting of the Authority held on December 19, 1951, it was unanimously voted that the check for this credit be forthwith remitted to the Authority.

In reference to this controversy, it was noted that an individual member of this Authority under date of June 29, 1950, wrote the Edison Company authorizing the payment to the electric subcontractor of this sum. Under date of December 12, 1951, however, a letter was forwarded rescinding the letter of June 29, 1950 and asking that this sum be paid to the Somerville Housing Authority.

**Subsidies Paid - Chapter 372 Projects:** No records are maintained by the Authority in this connection. By checking with the State Housing Board it was learned that the sum of \$9,022.80 has been paid by the Commonwealth to the Treasurer of the City of Somerville. These payments represent 8% of the certified development cost. There remains to be paid 2% or \$2,255.72 for a total of 10%, \$11,278.52.

**Monthly Reports to State Housing Board:** It was noted that no monthly reports have been prepared and submitted to the State Housing Board with regard to Project 200-1 since September of 1951. It is suggested that these delinquent reports be prepared and forthwith submitted.

**Contracts Awarded Without State Housing Board Approval:** It was noted that two contracts were executed without State Housing Board approval. These were for the services of the Executive Director and for the Tenants' Selection Investigator. In this connection it was learned that the Executive Director was paid for overtime worked in conjunction with tenants' selection. It was further noted that at the completion of the contract period of the tenants' selection investigator, the work was still not completed and he was continued on a weekly basis of \$50.00 per week which represented an increase of \$10.00 a week above the contract price. The propriety of these payments is questioned.

**Overtime Payments:** It was noted that over a period of time administrative personnel were paid for overtime with regard to tenants' selection without the express approval of the Authority. After this matter was discussed with the Executive Director, he brought it



up at a meeting of the Authority and approval was voted of all past and future payments with regard to this particular subject matter.

**Rent Roll:** It was noted that rent roll reflects actual rents collected rather than rental charges. This roll is posted at end of month when actual rent income is known rather than at beginning of month when rent is due. Because of this arrangement, the possible loss due to vacancy is not reflected.

**Loam Credit - Project 200-2:** It was noted that a credit was due from the General Contractor for loam charged under the original contract as this contract was changed so as to eliminate the use of loam. This matter is before the State Housing Board for a decision as the amount of credit offered is questioned by the Authority as being inadequate.

**Performance Bond of Sub-Bidders:** It was noted that the sub-bidders under the Project 200-2 Administrative Building had not furnished performance bonds as required. This matter was taken up with Authority personnel who indicated that steps will be taken to see that the necessary bonds are furnished.

**Visits to Projects:** In company with a State Construction Advisor and a representative of the architect, a visit was made to all projects and the following conditions were noted. At Project 200-2 the foundation of Building Four was decidedly far from true. The stairs to basement entrance were broken away from the foundation which will allow water seepage to enter between stairs and foundation and will cause damage due to freezing and melting action. On Buildings 7, 8 and 9, it was noted that the ceilings of apartments were very rough and some were peeling. The walls were also peeling and were found to be cracked in some apartments. In certain apartments an attempt was made to conceal these defects by pasting what appeared to be some sort of cloth or paper on walls which were later to be painted. It was further noted that in some apartments the shelves in kitchen cabinets were broken and that shelves in linen closets were not set. Plaster where these shelves hit the walls was badly damaged. In some cases behind movable floor cabinets, the walls also were badly damaged. General painting also showed many defects. Ceilings in many instances looked more like a patch job than new construction, and the walls at the window casements were badly cracked and in need of repair.

It was further noted that the rails on entrances were not securely bolted down, making for an injury hazard. Many apartments already occupied required hardware. Many have broken windows which were supposed to have been corrected before occupancy.

The State Advisor showed a check list for the project which contained numerous items which should be corrected in order to put the project in even fair condition. He further stated that the contractor was paid for many of the corrections, but upon inspection he found nothing had been done. This project proposes a high maintenance cost if work required at present to put the project in acceptable condition is not done before final acceptance. These conditions have been brought to the attention of the State Housing Board.

In connection with the foregoing shortcomings, there has been a considerable exchange of correspondence between the architect and the contractor. By way of further explanation the following are shown:

C  
O  
P  
Y

Re: Mystic Avenue  
Housing Project 200-2  
Somerville

November 1, 1951

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Boston, Mass.

Gentlemen:

Reference is made to recent conversation between your office and the Somerville Housing Authority with respect to "Punch Lists" covering items on the exterior of the buildings and around the entire areas of the subject job which have not as yet been received by you.

Representatives of your organization have been informed on different occasions that our efforts with regard to "Punch Lists" have been concentrated on the interior of the buildings, since we are striving to get the interior of the building completed for occupancy.

As you are aware all of the items which might be included in future "Punch Lists" covering items on the exterior and around the area including the roofs and basement can be completed after the buildings are occupied.

For items, however, covering exterior and basement work not yet completed, we refer you to copies of our correspondence dated as follows:

August 23, 1951  
October 2, 1951  
October 8, 1951  
October 22, 1951  
October 29, 1951  
October 31, 1951

All these letters contain items you have been directed to complete or correct and work in connection with which could be continuing at this time.

Very truly yours,

December 3, 1951

C

O

P

Y

Re: Mystic Avenue Housing  
Project 200-2  
Somerville, Mass.

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Boston, Mass.

Att: -----

Gentlemen:

Reference is made to your letter dated August 3, 1951, and received in this office even date, which contains estimates for additional work in connection with Buildings Nos. 4, 5, 6, 7, and 8 at the subject job in the amount of \$3,948.48.

There were absolutely no records or data on file in connection with your submission, nor were you authorized, nor was an order issued to perform this work.

If you will recall, upon your recent visit to this office wherein these items were discussed with the writer, you were informed at that time this work was not authorized and was not performed, and our understanding at that time with you was this estimate was not to be presented for payment.

Very truly yours,

December 7, 1951

C

O

P

Y

Re: MYSTIC AVENUE  
HOUSING PROJECT 200-2  
SOMERVILLE

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Boston, Massachusetts

Gentlemen:



Reference is made to Mr. -----'s verbal request made at the job on December 5th, for a letter covering the unsatisfactory installation of the ground wire from the lightning rods on the chimney at the subject project.

We refer you to our letter of November 6, in which the present location of the copper conductor was called to your attention as being unsafe and unsatisfactory.

Now that a portion of the buildings are occupied (buildings 1 to 6 inclusive) and the balance will probably be occupied in the near future, we again request that this item be suitably located at once to prevent possible personal injury and damage to the cable itself.

Very truly yours,

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C  
O  
P  
Y

December 19, 1951

Re: Mystic Avenue  
Somerville, Mass.  
Housing Project 200-2

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-----  
Boston, Mass.

Gentlemen:

Reference is made to the present condition of the concrete steps leading into the office space in the Basement of Building #4 at the subject job.

The first indication of any movement of this areaway was called to your attention on August 23, 1950. At this time an opening had developed around the entire contact area between the areaway and the foundation wall.

Our structural engineer made several inspections of this particular basement entrance together with others around the project and carefully noted the extent of the movements of these structures.

It was agreed on October 29, 1950, at a conference in the field at which time your Mr. ----- and ----- were present to withhold further action and corrective measures to allow checks for further settlement or movement of the areaway.

Many attempts have been made by you to fill the cracks along the foundation wall but the joint continues to open up.

Since October 31, 1950, you have been requested on many occasions to remove the entrance areaway to Building #4, as it has been continuously moving away from the foundation wall and no end of patching will cure the trouble.

The joint is now open and getting worse all the time and you are therefore, instructed once again to remove this concrete areaway and replace it with a new one properly anchored back into the foundation wall.

Kindly give this matter your immediate attention.

Very truly yours,

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December 19, 1951

C  
O  
P  
YRe: Mystic Avenue  
Housing Project 200-2  
Somerville, Massachusetts-----  
-----  
Boston, Mass.

Gentlemen:

Your attention is once again directed to the error made in laying up the facing tile walls in stair hall between Units "C" and "B" on the first floor of Building #8 at the subject job.

Due to the error in locating either the exterior building entrance door or the stair opening in the concrete slab it was necessary for your men to make an offset in the first floor apartment #13 Living Room wall which reflected in an additional corner on the stair hall side of the wall.

This corner was erected with a sharp 90° corner tile in place of a bull nose tile as specified for all external corners, resulting in a dangerous situation.

Your superintendent and mason foreman were both warned when this particular wall was first started, and only three courses high to stop work and replace it with the proper material.

You are again requested to remove this section of the wall and erect same using the material called for in your contract specifications.

Since this item comes under the classification of a major project, you are directed to have this work completed prior to occupancy of the building which is scheduled for the near future.

Very truly yours,

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Tenants' Security Deposits: Attention is called to the fact that all tenants had not been required to make Security Deposits. The relationship of those tenants having made deposits to those not covered by such deposits was as follows:

<u>Chapter 372</u>		<u>Project 200-1</u>
10	Units	216
3	Units Covered by Deposits	185
<u>7</u>	No Deposits	<u>31</u>

As the purpose of these deposits is to insure the Authority against possible loss, it is felt that all tenants should be covered. It is therefore, suggested that steps should be taken to collect deposits for all units not covered.

Rents - Projects 200-1 and 200-2: The Average Rental Charges, as shown under the caption Project 200-1 - Clarendon Hill will be reduced in the year 1952. The reduction will be the result of a new Rental Basis pursuant to an adjustment of allowances for dependents as set forth in a resolution adopted by the Members of the Board on September 27, 1951. This change was approved by the State Board. The change was as follows:

<u>Old Basis</u>	<u>Rent Income Ratios</u>	<u>Admission Limits</u>	<u>Continued Occupancy Limits</u>	<u>Minimum Rents</u>
Minor Dependents				
less than 3	18%	\$3,250 00	\$3,750 00	\$30 00



3 or more	14%	\$3,500 00	\$4,000 00	\$23 50
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New Basis

1 or less	18%	\$3,650 00	\$3,900 00	\$30 00
2	16%	3,775 00	4,025 00	26 50
*3 or more	14%	3,900 00	4,150 00	23 50

\* Plus \$100.00 deduction from total income for each minor dependent child in excess of three.

Although the new Rental Basis was passed on September 27, 1951, it was not effective on Project 200-1 until January 1, 1952. However, on Project 200-2 it was effective from its first occupancy, November 20, 1951.

The average rents as shown on Project 200-2 are on the New Basis while those shown on Project 200-1 are on the Old Basis.

A review of the resultant reduction as applied to Project 200-1 for January 1952 showed the "Average Rent" would be reduced \$1.63 per month.

## PEABODY HOUSING AUTHORITY

REPORT No. 52-H-30

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and Municipal officials. It was noted, however, that no reports for the calendar years 1949 and 1950 had yet been made by this Authority. It is therefore recommended that the necessary steps be taken to compile and submit these delinquent reports.

Rents - Chapter 200 - Project 200-1: The rents for this project have been established as follows:

Families with less than 3 minor dependents	18%
Income on Admission Limits	\$3,250 00
Income on Continued Occupancy	3,750 00

Families with more than 3 minor dependents	14%
Income on Admission Limits	\$3,500 00
Income on Continued Occupancy	4,000 00

Utility Charges are as follows:  
3¢ per K. W. H. used.

Average Rent (Including Utilities)	\$44 61
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Average Shelter Rent	39 20
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It was also noted that at a meeting of this Authority, held on April 5, 1951, it was voted that only one verification be made annually of tenants' income and rents, and that any adjustment become effective on June 1, 1951. To date, no adjustment had been made in this respect.

Minutes of the Authority's Meetings: The minutes of the Authority's meetings which were held from its organization, November 22, 1948, to May 2, 1949 were still not available. The importance of these records cannot be stressed too strongly and it is again suggested that efforts be made to locate them.

Payments for Services Rendered: In several instances payments for services rendered were made from four days to one week in advance. It is advised that such payments be made only subsequent to services actually being rendered.

Petty Cash Fund: In certain cases it was noted that the petty cash expenditures were not being properly approved. It is again recommended that regular petty cash vouchers be used and that the signature of the person authorizing the expenditures be available.

Chapter 200 - Project 200-1, Contract Awards: It was noted that an entry for \$1,500.00 was not journalized in the Contract Award account and the Incompleted Contract

account, the two accounts were overstated. It is suggested that the necessary adjustment be made.

Luncheons and Conferences: A total of \$128.00 had been disbursed since August 1, 1950 for the luncheons and conferences. This amount was charged to the various funds as follows:

	<u>Amount</u>
Temporary Financing - Development Fund	\$ 86 95
Permanent Financing - Administration Fund	41 05
	<u>\$128 00</u>

The individual disbursements ranged from \$3.80 to \$38.70.

Cash Receipts Register: In many instances there is posted only the deposit of cash received in the bank deposit column in the cash book. In this connection the Tenants' Accounts Receivable account, Tenants' Security Deposit Fund account or other applicable accounts should also be posted. It was further noted that the cash book does not designate the source of certain receipts. It is suggested that all items be properly analyzed in the cash book.

Development Costs - Project 200-1: It was noted that although this project was originally planned to cost \$715,000.00, with a unit cost of \$10,514.00, the actual adjusted cost was \$722,000.00 or a unit cost of \$10,618.00.

Permanent Financing - Project 200-1: The initial operating period of this project ended on December 31, 1950 with the issue of bonds under Permanent Financing. In this connection, it was noted that the bond issue at an interest rate of 1 3/4% with a premium of \$11,176.00 was in the aggregate amount of \$722,000.00. The amount represented the total development cost less a part of the surplus earned during the initial operating period in the amount of \$695.91.

It was further noted that the books for the initial operating period were closed as of December 31, 1950 and new accounts, under Permanent Financing, were opened as of January 1, 1951.

In this connection, attention is called to the fact that at the end of the initial operating period the cash balance in the Development Fund was \$50,939.42. This cash was distributed as follows:

Balance December 31, 1950		\$50,939 42
Credit from Debt Service Fund		3,823 02
Accounts Receivable Development	\$2,666 16	
Less:		
Accounts Payable Development	491 93	2,174 23
		<u>\$56,936 67</u>
Expended:		
Contract Retentions		\$32,709 80
Accounts Payable		16,737 02
Withholding Tax		21 00
Insurance Adjustment		4,780 05
		<u>\$54,247 87</u>
Balance November 30, 1951		2,688 80
		<u>\$56,936 67</u>

It was noted that the cash balance in the Administration Fund on that date totaled \$7,612.09. This cash was disposed of as follows:

Balance December 31, 1951	\$7,612 09
Accounts Receivable Development	491 93
	<u>\$8,104 02</u>



## Expended:

Accounts Payable	\$6,190 02
Payments in Lieu of Taxes	405 00
Operating Reserve	<u>1,509 00</u>
	<u>\$8,104 02</u>

This Authority received a subsidy of 2 1/2% of the Certified Development costs as its first annual contribution from the Commonwealth. This item totaling \$18,050.00 was paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of the subsidy payment which is paid to the Fiscal Agent will be held by him for six months and fifteen days before any payments are made from it. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

**Administrative Fund Agreement:** It was noted that Project 200-1 had not had the benefit of such an agreement since September 29, 1950, the date of initial occupancy. Funds collected are not being deposited in a bank approved by the Chairman of the State Housing Board. It is understood that this matter will be corrected as soon as possible.

**Chapter 200 - Project 200-1 - Contracts Awarded:** It was noted that the Authority did not award a contract for exterminating services to the lowest bidder of record. The files indicated that the Authority rejected this bid as being "unsatisfactory."

The difference between the two lowest bids was only \$14.00. This transaction was approved by the State Housing Board under date of August 10, 1951.

It was also noted that this Authority did not award a contract for lawn mowers to the lowest bidder. The records indicated that the low bidder "did not meet the Authority's requirements."

The difference between the two lowest bids was \$40.00. This transaction was approved by the State Housing Board under date of August 3, 1951.

**Chapter 200 - Project 200-1 - Change Order #5:** There was no signed or approved copy of Change Order #5 in the files of this Authority. It is recommended that an approved copy of the Change Order be obtained for the files of this Authority.

**Chapter 200 - Project 200-1 - Retention of Clerk of Works:** Attention is directed to the fact that this Authority retained its Clerk of Works, at the salary of \$90.00 a week, from September 29, 1950, the date of initial occupancy, until the expiration of the initial operating period, December 31, 1950. As of January 1, 1951, he was designated as the maintenance man of the project at a salary of \$55.00 a week and on June 1, 1951 the salary was further reduced to \$25.00 weekly.

**Chapter 200 - Project 200-1 - Dwelling Rent Schedule:** It was noted that only the actual rent and utilities charged to the tenants was posted to this account. The Manual for Accounting Procedure issued by the State Housing Board states in this respect:

"the credit balance of this account represents the rental income, including utilities, which would be received from dwelling units if all units available for dwelling use were occupied."

At the present time because of this non-compliance with the Manual's instructions, the Dwelling Vacancy Loss is not properly reflected. It is therefore recommended that all records be maintained as prescribed by the State Housing Board's Accounting Manual.

**Chapter 200 - Project 200-1 - Account Payable Voucher:** It was noted that a voucher in the sum of \$4,747.05 for Fire and Extended Coverage Insurance on the 68 Dwelling Units was paid out of the Development Fund whereas it should have been paid from the Administration Fund. It is suggested that the necessary adjustments be made.

**Chapter 200 - Project 200-1 - Legal Contract:** It was noted that there is no contract for legal services in effect. In this connection it was noted that the City Solicitor performed all necessary legal work for the Authority without charge.

**Municipal Account:** This account represents a grant made to the Authority by the City to meet special or unusual items and preliminary expenses in developing a new project. The transactions in this account were examined from November 31, 1947 to January 8, 1951, the entire period during which this fund was in operation.

Appointment of Housing Authority Member: It was noted that the term of one of the members of the Housing Authority expired on June 11, 1951 and that he was reappointed on November 9, 1951 to a three year term, ending June 11, 1954.

According to the General Laws, Chapter 121, Section 26L -- Election or Appointment of Members -- it is stated that when the term of a member of any housing authority expires, his successor shall be appointed for five years.

# MONTAGUE HOUSING AUTHORITY

REPORT No. 52-H-31

Operating Surplus Initial Operating Period: The surplus from operations during the initial operating period totaled \$5,253.46 and was distributed as follows:

To Development Fund (To Reduce Development Costs)	\$1,807 46
To Reserve for Operations	3,446 00
Total	<u>\$5,253 46</u>

Development Fund Cash Balance: The cash which was transferred when Permanent Financing went into effect, when combined with the open Accounts Receivable was apparently necessary to liquidate unpaid Development Fund Charges as follows:

Cash Transferred to Management	\$15,170 44
Accounts Receivable:	
From Administration:	
Reduction of Development Costs	1,807 46
From Management:	
Interest on Notes	251 24
Total Available	<u>\$17,229 14</u>

Accounts Payable:	
Architect's Fee	\$ 1,462 06
Accountant's Fee	35 00
Contract Retentions	14,533 98
Contract Awards	231 44
Bond Council	750 00
Management Fund - Working Capital	216 66
Total Payable	<u>\$17,229 14</u>

Debt Service Fund: This Authority pays into its Debt Service Fund through its fiscal agent each year an amount which together with the amounts received from other sources will equal the year's total debt requirement. This amount is paid in ten monthly payments, 1/12 of the total to be paid on or before the fifteenth of the month in each of the first nine months and the balance to be paid on or before the fifteenth day of the tenth month of each fiscal year. Attention is called to the fact that approximately 85% of these subsidy payments are held by the fiscal agent for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

This Authority has received its first annual Commonwealth Contribution in the amount of \$8,125.00, which represents 2 1/2% of the Certified Development Costs as provided in the Contract for Financial Assistance. It was paid directly to the fiscal agent of the Authority.

Investments - Debt Service Trust Fund: In order to lower the net interest cost of the bond issue the Montague Housing Authority has invested, with the approval of the Chairman of the State Housing Board, \$4,000.00 of the bond premium received in U.S. Treasury Notes which bear interest at the rate of 1 3/4%.

Rents: The rents of this project are based on a graded income schedule as follows:



Less Than 3 Minor Dependents	3 or More Minor Dependents	Rental Charge Per Month
Net Income Per Year	Net Income Per Year	
To:	To:	
\$3,400 00	\$3,700 00	\$35 00
3,401 00 - \$3,600 00	3,701 00 - \$3,900 00	37 00
3,601 00 - 3,800 00	3,901 00 - 4,100 00	40 00
3,801 00 - 3,900 00	4,101 00 - 4,200 00	45 00
Over:	Over:	
\$3,901 00	\$4,201 00	Ineligible 60 00

The rental charge includes water charges. Each tenant must pay for his own heat and electricity.

HAVERHILL HOUSING AUTHORITY

REPORT No. 52-H-32

General - Records of the Authority: This audit was initiated on January 17, 1952 and it was noted that the books of account had been posted only to October 31, 1951. It was also noted that the minutes of the Authority's meetings were available for examination only to November 16, 1950.

It is recommended that all records be kept on a current basis.

General - Burglary and Robbery Insurance: An examination of the insurance coverage of the Authority indicated no evidence of coverage against Burglary and Robbery. It is recommended that this type of insurance in necessary amounts be obtained.

Project 200-1 - Tenants' Accounts Receivable: It was noted that the balance outstanding of the Tenants' Accounts Receivable was \$588.27. It appears that this amount is exorbitant for a project of this size and it is recommended that a more definite collection policy be initiated by the Authority so that these accounts will be collected more promptly.

Project 200-1 - Status of Project: The initial operating period of this project ended on September 30, 1951 with the issue of bonds under Permanent Financing. In this connection it was noted that the bond issue at an interest rate of 2% with a premium of \$8,990.23 was in the aggregate amount of \$499,000.00. This amount represented the total development cost less a part of the surplus earned during the initial operating period in the amount of \$1,779.93.

It was further noted that the books for the initial operating period were closed as of September 30, 1951 and new accounts under Permanent Financing were opened as of October 1, 1951.

In this connection attention is called to the fact that at the end of the initial operating period the cash balance in the Development Fund totaled \$5,917.48.

The cash was distributed as follows:

Transfer to Debt Service Fund Toward	
Retirement of 2nd Series Notes	\$4,917 48
Accounts Payable	1,000 00
Cash on Hand December 31, 1951	<u>\$5,917 48</u>

It was also noted that the cash balance in the Administration Fund on that date totaled \$8,076.87. After transferring \$1,779.93 of this amount to reduce the Development Costs for purposes of the bond issue, the balance was substantially used for Operating Reserve, Accrued Pilot and Insurance Reserves.

This Authority will receive a subsidy of 2 1/2% of the Certified Development Costs as its first annual contribution from the Commonwealth. This item which will total \$11,487.00 will be paid directly to the Fiscal Agent for the Authority.

Attention is called to the fact that approximately 85% of this subsidy payment will be held by the Fiscal Agent for six months and fifteen days before any payments are made from it. It is noted that no arrangements have been made to have interest paid or credited for the use of these funds.

Project 200-1 - Operating Reserve: The maximum operating reserve to be set up in any one year, as established by the Management Program adopted by the Authority on December 12, 1950 and approved by the State Housing Board on January 26, 1951 is

\$4,570.00. Although this project was in the initial operating period for only a period of ten months, the Operating Reserve established in the closing entries of the State Housing Board totaled \$5,500.00 simply because it was available.

Project 200-1 - Rents: The rents for this project are based on the tenants' income plus a charge for utilities. This project's rents are computed as follows:

15% of income for a tenant having three or more minor dependents and

19% of income for a tenant having less than three minor dependents.

In addition to this the charge for all utilities including heat and hot water is:

\$12.78 a month for a two bedroom unit and

\$14.07 a month for a three bedroom unit.

The rents charged for the month of December 1951, including utilities, ranged from \$44.28 to \$58.78 with an average rental charge for the month of \$53.26.

Project 200-2 - Rents: The rents for this project are also based on a percentage of the tenant's income plus a charge for utilities.

This project's rents are computed as follows:

15% of income for a tenant having three or more minor dependents and

19% of income for a tenant having less than three minor dependents.

In addition to this the charge for all utilities except heat is:

\$9.20 per month for a two bedroom unit and

\$10.15 per month for a three bedroom unit.

The rents charged for the month of December 1951 including utilities, ranged from \$40.70 to \$62.20 with an average rental charge for the month of \$50.11.

TAUNTON HOUSING AUTHORITY

REPORT No. 52-H-33

Revolving Fund: During the period under audit a Revolving Fund was established through receipt of funds from the several projects for the purpose of paying the joint expenses of two or more projects.

Whenever possible joint expenses are allocable on the basis of applicability. Where such distribution is not practicable, allocation is made on the basis of the number of units in each development.

At the end of each month the disbursements from the Revolving Fund are analyzed and checks are drawn from the accounts of each of the projects involved to replenish the revolving Fund with the amount of the expenditures made on account of the particular project.

In this connection it is suggested that a separate ledger account be set up in the general ledger for the control of this fund.

Retirement System Contribution: It was noted that the sum of \$270.00 was paid to the City of Taunton Retirement System from Project 200-1 Administration Funds and was not prorated to all projects.

This amount should have been prorated among the other projects and it is therefore suggested that the necessary adjustments be made.

#### Title V

Rents: The rents of this project have been established as follows:

<u>Number Units</u>	<u>Unit Size</u>	<u>Rent</u>
18	1 Bedroom	\$23 00



33	2 Bedrooms	\$27 00
10	3 Bedrooms	30 00
5	4 Bedrooms	32 00

#### Projects 200-1 and 200-2

The shelter rents are based on a fixed proportion of the tenants' net family income and bear the following relationship to that income:

18% for families with less than three minor dependents

14% for families with three or more minor dependents

No rents can be charged below the following amounts which are established as minimum rents:

For families with less than three minor dependents \$30.00

For families with three or more minor dependents \$23.50

No applicant can be admitted to tenancy in the projects if their net annual income exceed the following established income limits:

Families with less than three minor dependents \$3,250.00

Families with three or more minor dependents \$3,500.00

Tenants are ineligible for continued occupancy and are required to move from the project if their income exceeds the following limits:

Families with less than three minor dependents \$3,750.00

Families with three or more minor dependents \$4,000.00

**Title V - Operating Account:** As of the date of audit the project known as "Building No. 26", consisting of two units, was still under Federal supervision in accordance with Contract VN-19147 with the Public Housing Administration.

Transactions in the Title V Operating Account affecting this project were checked to such an extent as was deemed necessary to prepare necessary statements for the entire Title V Project.

It is understood that the Authority had initiated steps to have the Federal government relinquish its rights to this project.

**Title V - Accrued Ground Rents:** It was noted that accrued ground rents in the amount of \$3,325.00 were still being carried on the books as of December 31, 1951. This amount represents ground rents accrued to December 31, 1949 when this particular project was relinquished by the Federal Government and the Authority had been unable to ascertain to whom this amount is due.

In connection with the ground rent accrued since January 1, 1950, it was noted that the Federal Government had canceled its permit for use of land upon which this project is located and it had also advised this Authority to contact the Commonwealth of Massachusetts - Department of Mental Health for a permit to use the land after December 31, 1949.

The records, however, indicate that as yet no decision has been received in this matter.

**Title V - Fire Insurance:** The previous report stated that this project was not covered by fire insurance. Attention is again called to the fact that no action had been taken to insure the project. This matter was discussed with the Executive Director of the Authority who indicated that this matter was not taken care of because the project will shortly be discontinued.

**Title V - Miscellaneous Sales:** During the period under audit surplus equipment was sold in the amount of \$185.00.

These sales consisted of 2 stoves, 5 sinks and miscellaneous aluminum parts which were obtained when 3 and 4 room apartments were converted to 5 and 6 room apartments.

The local Authority voted to sell this equipment at private sale, because there had been no response to previous advertisements for bids on the sale of surplus equipment.

Title V - Reduction in Number of Units: During the period under audit the number of units in this project was reduced from 70 to 66 and was made in order to provide more of the larger apartments.

Title V - Surplus: During the period of audit \$11,136.58 was transferred to the City of Taunton from operating surplus. As of December 31, 1951 the balance in surplus was \$9,530.68, which it is expected will be transferred to the city within a few weeks.

Project 200-1 - Delay in Acceptance of Project: The date of first occupancy was February 20, 1950. As of December 31, 1951 the project had not been accepted and was still being financed through temporary notes.

This delay in acceptance is due to a leakage problem caused by Mica Mastic peeling off the building and excess heating expense cause in part by having no facilities for automatically lowering night temperatures and a few other defects.

The Authority has held up final payments to the contractor until it is certain all these defects are remedied.

Project 200-1 - Utilities Expenses: It was noted that the total expenditures for utilities which consist principally of charges for steam for heating purchased from the local municipal lighting plant, for the period February 1, 1950 to December 31, 1951, totaled \$35,825.97. In this connection it was noted that the average monthly cost per unit for these utilities was \$15.27, whereas the Authority is getting as a return from each unit the sum of \$9.80 per month. As it is not the purpose of the Authority to lose money in this respect, it is suggested that the matter be surveyed so that the total income will be commensurate with the total expense.

Project 200-1 - Change Orders: It was noted that change orders No. 17, 18 and 19, which were approved on August 3, 1951 and August 16, 1951, totaling \$2,624.22 were not reflected in the contract award account in the general ledger.

It is suggested that all change orders should be posted to this account currently so that it will at all times indicate the true status of the contract.

Project 200-1 - Payment of Development Expenses from Administration Fund: It was noted that \$5,325.10 was paid from the Administration Fund for expenditures in connection with the installation of combination storm and screen doors. This account was properly charged to the Development Fund and was set up as Accounts Receivable on the books of the Administration Fund.

It was noted, however, that this item was not reflected in the Development Costs or the Accounts Payable - Development as of the date of audit, and it is therefore recommended that the necessary adjusting entries be made.

Project 200-1 - Payment of Administration Expenses from Development Fund: The previous audit report commented that certain Administration expenses had been paid from the Development Fund.

As no adjustment has been made in this respect, it is again suggested that the Development Fund be reimbursed for these expenditures which to the date of the current audit total \$1,321.40.

Project 200-1 - Total Development Cost: The total development costs per the records total \$1,242,728.43 as of the date of audit. This amount does not include items amounting to \$5,325.10 which were paid from Administration Funds, unpaid change orders amounting to \$2,624.22 and balance of incomplete contracts amounting to \$1,390.55. On this basis the total adjusted development costs to December 31, 1951 totals \$1,252,068.30 although the contract for financial assistance for this project was established in the amount of \$1,230,000.00.

In further connection with this project attention is directed to the fact that the delay in its acceptance has resulted in charges for interest on the temporary notes in the amount of \$26,507.16, as compared with only \$6,000.00 which was estimated under the contract for financial assistance.

Project 200-1 - Fire Loss Check: It was noted that a check in the amount of \$140.00 which had been received as reimbursement on fire losses was being held in the office files. This matter was brought to the attention of the proper personnel and it was deposited during the course of this audit.



Project 200-2 - Change Orders: It was noted that change orders No. 17, 19 and 20 which were approved on November 28, 1951 and November 30, 1951, totaling \$939.90 were not reflected in the contract award account in the general ledger.

It is suggested that all change orders should be posted to this account currently so that it will at all times show the true status of the contract.

Project 200-2 - Performance Bond Check: It was noted that a certified check in the amount of \$740.00 which was accepted in lieu of a performance bond was not deposited but was being held in the contract folder.

This check was returned to the contractor while the current audit was in progress.

#### WELLESLEY HOUSING AUTHORITY

REPORT No. 52-H-34

Rent Receipts - Title V: It was noted that a number of prenumbered rent receipts were missing and that several unnumbered receipt slips had been used. This arrangement made it impossible to accurately audit income from rents.

At present rent receipts in duplicate are mailed to tenants on the first of each month. These are receipted when the tenant pays them and one copy is retained by the office. When a partial payment is made, an unnumbered rent receipt is used.

It was also noted that the rent receipts are made up in sets of four and as only duplicates are used, the same numbers appear twice.

Tenants' Accounts Receivable Ledger - Title V: It is suggested that separate account sheets be maintained for each tenant's rent transactions. At present, ten names appear on a sheet resulting in untidy records.

Deposit of Funds - Title V: At present income cash is allowed to remain in the safe for a few days. It is suggested that it be deposited more promptly.

It was also noted that the rental income and the tenants' security deposits were deposited in the Management Fund cash account. It is suggested that separate bank accounts be opened for them.

Chapter 372 - Title V: It was noted that in posting expenses, regardless of their nature they are entered as either General Expenses or Repairs, Maintenance and Replacements. It is recommended that these expenses should be posted to one of the following accounts:

4100	Management
4200	Operating Services
4300	Dwelling and Commercial Utilities
4400	Repairs, Maintenance and Replacements
4700	General Expenses

It is also suggested that the Manual of Accounting Procedure of the State Housing Board should be referred to more frequently to ascertain that items are posted to the proper accounts.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and Municipal officials. It was noted, however, that no such report for the calendar year 1950 had been made. It is therefore recommended that the necessary steps be taken to compile and submit this delinquent report as soon as possible.

Cash Receipts Register - Chapter 200 - Project 200-1: It was noted that occasionally deposits of cash received are posted only in the bank deposit column of the cash book. These postings should also be entered in the Tenants' Accounts Receivable account, the Tenants' Security Fund account, or whatever other account is applicable.

Deposit of Funds - Project 200-1: It was noted that the rental income and the Tenants' Security Deposits are both being deposited in the Administration Fund Bank Account. It is suggested that separate bank accounts be maintained.

It was also noted that the income cash is often kept in the fireproof vault file in the office of the Authority for a few days. It is suggested that these funds be deposited more promptly.

Rents - Chapter 372 - Title V: The following rates for shelter rent have been established by this Authority:

17	3 Room Apartments	\$30 00 per month
37	4 Room Apartments	34 00 per month
<u>9</u>	5 Room Apartments	40 00 per month
<u>63</u>		

Rents and Utility Charges - Project 200-1: Rents in effect for this project since January 1, 1952 have been established as follows:

Families with 1 minor dependent	18%
Income on Admission Limits	\$3,650 00
Income on Continued Occupancy	3,900 00
Minimum Rent	30 00
Families with 2 minor dependents	16%
Income on Admission Limits	\$3,775 00
Income on Continued Occupancy	4,025 00
Minimum Rent	26 50
Families with 3 or more minor dependents*	14%
Income on Admission Limits	\$3,900 00
Income on Continued Occupancy	4,150 00
Minimum Rent	23 50

\* Families with 3 or more minor dependents may have \$100.00 deducted from annual earnings for each minor dependent in excess of three.

Annually each tenant's income is verified and the rental paid is adjusted to reflect any change.

Utility charges in effect are as follows:

<u>Two Bedroom Units</u>		<u>Three Bedroom Units</u>	
Cold water and sewerage	\$ 3 00		\$ 3 00
Hot water and heat	8 00		9 10
Electricity	<u>4 40</u>		<u>4 70</u>
Total	<u>\$15 40</u>		<u>\$16 80</u>
Based on an estimated monthly electricity usage of			
	<u>202 K. W. H.</u>		<u>217 K. W. H.</u>

It was noted that the operating budget for this project estimated the average rent, including all utilities and heat, at \$53.76 per month and the average shelter rent at \$36.85 per month and the actual average rent, including all utilities and heat, collected by the Authority is \$55.35 per month and the average shelter rent collected is \$39.32 per month.

Development Cost - Project 200-1: Attention is called to the fact that although this project was originally planned to cost \$1,048,000.00 with a unit cost of \$11,644.00, it now appears that the actual final cost is \$1,037,000.00 with a unit cost of only \$11,522.00.

Tenants' Security Deposits - Title V: It was noted that an overage of \$10.00 existed in this fund on the date of audit. During the examination it was noted that a refund in this amount had been made to a tenant upon vacating which was in error charged to an expense account. This was brought to the attention of the bookkeeper who will make the necessary adjustment.

Posting of Tenants' Accounts Receivable - Project 200-1: Several instances were noted where the accounts were posted incorrectly from the rent roll and the rent receipts. More care should be exercised in the performance of this function.

Capital Fund: This Authority keeps a checkbook to pay the invoices of this fund. No



other information of this fund appears on any other financial record. It is suggested that necessary accounts be opened in the books so that a book record will be available for all these transactions.

Donation of Playground Equipment - Project 200-1: As a matter of record, attention is called to the fact that the Wellesley Kiwanis Club donated the following playground equipment for the use of the tenants of this project:

- 1 slide
- 2 sets of swings:
  - 1 single swing
  - 1 double swing

Ranges - Project 200-1: Attention is directed to the fact that although the State Housing Board specified that forty-eight 3 burner electric ranges and forty-two 4 burner ranges be installed in the project, this Authority considered the 3 burner type range inadequate and voted to purchase 4 burner electric ranges for the entire 90 units in the project, paying the difference in cost from the Capital Account. The difference was \$3.33, or a total difference of \$159.84.

In this connection it was noted that there was paid from the Capital Account a check in the amount of \$159.84 on July 31, 1950 to the Wellesley Housing Authority. On January 27, 1951, another check from the Capital Account for \$159.84 was paid directly to the contractor.

Arrangements should be made to adjust the records because of this duplicate payment.

Installation of TV Antennas - Project 200-1: There was paid from the Capital Account \$500.00 for the erection of two special antennas to service six apartments.

Contract Awarded - 1/2 Ton Pickup Truck - Project 200-1: It was noted that this Authority did not award a contract for a truck purchase to the lowest bidder. The reason given was that the lowest bid was based on a six cylinder truck while the Authority purchased an eight cylinder truck, at a price difference of only \$25.00. This transaction was with the approval of the State Housing Board.

Bid Deposits - Project 200-1: It was noted that two contractors are still holding plans and specifications on this project and that the Authority is in possession of their deposits of \$50.00 each. It is suggested that the Housing Authority contact these contractors relative to the disposition of these two items.

Checks - Title V: It was noted in reconciling the bank account that there were several blank checks signed in advance by two members of the Housing Authority. It is recommended that checks be signed and countersigned only after they have been completely made out.

Theft of Funds - Project 200-1: It was noted that on March 1 or March 2, 1951 funds were stolen from the fireproof file at the Housing Authority office. This loss was reported to the local police and State police on the morning of March 2, 1951. The total amount of rents stolen was \$1,577.56, consisting of cash in the amount of \$1,067.66 and checks totaling \$509.90. Payment was stopped on all checks and new checks were issued. Petty cash in the amount of \$23.73 was also stolen. Reimbursement was received from the insurance company on the following basis:

Petty Cash Stolen	\$ 23 73
Fireproof File	213 82
Petty Cash Box	3 75
Actual Cash Loss	1,067 66
	<u>\$1,308 96</u>

Surplus and Accounts Payable to Town - Title V: It was noted that the Town of Wellesley receives from this Authority, every three months, \$9.00 per apartment for water and sewerage service, a total of \$567.00 each quarter. It was also noted that there was paid to the Town in January 1951, \$11,684.95 representing surplus from operating to December 31, 1950.

Permanent Financing - Project 200-1: The initial operating period of this project ended on June 30, 1951 with the issue of bonds under so-called Permanent Financing. In this connection it was noted that the bond issue at an interest rate of 2 1/8% with a premium of \$11,500.33 was in the aggregate amount of \$1,037,000.00. The amount represented the total development costs less a part of the surplus earned during the initial operating period in the amount of \$4,014.75. It was further noted that the books for the initial operating period were closed as of June 30, 1951, and new accounts under Permanent Financing were opened as of July 1, 1951. In this connection attention is called to the fact that at the end of the initial operating period the cash balance in the Administration Fund was represented as \$15,948.79.

At this time this amount was set aside for the following purposes:

Prepaid Tenants' Accounts Receivable	\$ 277 18
Tenants' Security Deposits	2,250 00
Accounts Payable	4,121 61
Payment in Lieu of Taxes	1,100 00
Operating Reserve	8,200 00
	<u>\$15,948 79</u>

in further connection with this matter it was noted that the cash balance in the Development Fund was as follows on that date:

Cash		\$102,285 73
Accounts Receivable - Development	\$5,105 65	
Less:		
Accounts Payable - Development	401 12	4,704 53
		<u>\$106,990 26</u>

This amount was distributed as follows:

Interest Payment on Temporary Notes	\$ 30,217 33
Reduce the Indebtedness on Temporary	
Notes from \$1,048,000.00 under	
Temporary Financing to \$1,037,000.00	
under Permanent Financing	11,000 00
Accounts Received - Development	50 00
Contract Retentions	43,584 13
Accounts Payable	22,111 80
Collector of Internal Revenue	27 00
	<u>\$106,990 26</u>

This Housing Authority has received a subsidy of 2 1/2% of the Certified Development costs as the first annual Commonwealth Contribution. The amount was paid directly to the fiscal agent of the Authority in the amount of \$25,925.00.

Attention is called to the fact that approximately 85% of this subsidy payment which is paid to the fiscal agent will be held by him for six months and fifteen days before any payments are made from it. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

Accounts Payable to Town - Project 200-1: It was noted that the Town of Wellesley was paid for water and sewerage for the period of December 15, 1950 to September 19, 1951 the sum of \$2,689.32. It was also noted that the Town of Wellesley received payment in lieu of taxes of \$1,100.00 on October 31, 1951 for the period to June 30, 1951, the end of the initial operating period.

#### WINTHROP HOUSING AUTHORITY

REPORT No. 52-H-35

General - Petty Cash: Although the Petty Cash Account in the general ledger shows a balance of \$50.00, actually the balance should have been \$75.00. A check was drawn for \$25.00 from Chapter 372 and was charged directly to general expense. It is suggested that the necessary adjustment be made.

It is also suggested that petty cash vouchers be cleared more promptly as vouchers were found in the office dating back to August, 1950 that had not been cleared.



**General - Security Deposits:** The actual cash representing these deposits is deposited with the regular accounts. It is suggested that a separate fund be maintained.

**General - Salaries and Wages Not Recorded Completely:** Salaries and wages are now recorded at the net amounts. In this connection, it is suggested that gross amounts be shown and that taxes withheld be shown in a separate account.

**General - Cash Book Entries:** The cash books of Chapter 372 and Administration, Project 200-1 do not show the detailed allocation of daily cash receipts and disbursements totals only being posted. At the end of each month, these totals are distributed to the proper accounts without indicating the distribution. It is suggested that the original entries should show all necessary information in sufficient detail, so that the transactions may be completely interpreted.

**General - Trial Balance of Subsidiary Records:** It was noted that no organized effort is made to check the subsidiary records with their respective control accounts. One of the basic principles of accounting procedure is that at the end of each month, trial balances of subsidiary records should be reconciled with these general controls. In this way the accuracy of both sets of figures is established.

**Project 200-1 - Land Settlement:** This Authority has taken over certain land by exercising the Right of Eminent Domain, but the price has not yet been finally established. Because of this, Project 200-1 has not yet gone into permanent financing and the matter is presently the subject of legal litigation.

**Site A and B of Project 200-1:** These sites were visited and the interior of several homes were viewed. In this connection, it was noted that a cellar suffered because of water seepage on its floor. It was indicated that the Board is attempting to correct this condition which it is understood common in that section of the town because of the soil condition.

**Project 200-1 - Agent's Fees:** It was noted that fees paid on account of the issue of the 4th series temporary notes in the amount of \$702.35 were charged to the Pay Roll Executive Account. The necessary adjustments were effected.

**Project 200-1 - Employee's Deduction:** A deduction of \$5.30 for an employee's withholding tax on July 31, 1950, was still found in the Development Fund. It is suggested that this item be disposed of.

**Project 200-1 - Tenants' Accounts Receivable:** The balance of this control account indicated a credit balance of \$246.69, while the trial balance of the individual accounts indicated a total of \$272.75 or a variance of \$26.06. This difference was identified and necessary adjustments were advised.

**Project 200-1 - Tenants' Selection Cost:** It was noted that a transfer of \$17,000.00 was made from the Administration Fund to the Development Fund and was credited to the accounts for Tenants' Selection Cost, whereas it should have been credited to the account for Income - Initial Operating Period.

**Chapter 372 - Expenditures Exceeded Budget:** It was noted that the total expenses for the 1951 year were \$6,524.76 as compared with the Budget of \$6,396.84 approved by the State Housing Board. The difference of \$127.92 was occasioned by a sidewalling project.

**Chapter 372 - Payments to Federal Public Housing Authority:** It was noted that a payment of \$635.15 was made to the Public Housing Administration as reimbursement for unallowable expenditures made by the Board of Selectmen while this project was under its management.

**Project 372:** A surplus of \$674.99, exclusive of operating reserves, is indicated for this project on December 31, 1951. Payments were made to the Town of Winthrop in the form of taxes in the amount of \$3,870.00 between July 31, 1950 and December 31, 1951.

## SALEM HOUSING AUTHORITY

REPORT No. 52-H-36

**General - Revolving Fund:** It is suggested a Revolving Fund be established to handle disbursements that apply to more than one project.

**Delinquent Rents:** The amounts of rent due from tenants indicated a large amount as unpaid. This would indicate that a more businesslike policy for handling delinquent items is necessary.

It was noted that although many of the unpaid items were owed by tenants who had vacated, there were also several cases with substantial balances due from tenants still occupying apartments. In this connection it was noted that the rent was in arrears a year in one instance, and in several other cases the rent was four to six months overdue.

Most of these cases are in the hands of an attorney for collection. It is suggested also that the amounts of delinquent rents from tenants who have vacated and others from whom collection is very doubtful should be charged off the books against the Reserve which is provided for such cases.

**Potential Rents:** Attention is called to the fact that the method of setting up the Rental Income was not in accordance with the suggested method as prescribed in the State Housing Board Manual for Accounting Procedure. The Income Account is being credited with the net rental charge instead of on the potential basis. Because of this arrangement true Vacancy Losses are not being indicated on the records.

**Chapter 372 - Certification of Development Costs and Subsidy Payments:** While the Development Costs reflected on the records total \$463,042.99 the subsidy payments are being made on the basis of \$447,462.96. The difference represents the cost of units under Section IV which were either owned by the City of Salem or on lease from private owners. It was also noted that four of the five subsidy payments had already been made. It is also understood that these units which are either owned by the City of Salem or on lease from private owners will be returned to the respective owners not later than June 1952.

**Chapter 200-1 - Development Costs:** It was noted that the Development Account, although in Permanent Financing, still carried a bank balance of \$366.42. The balance should be transferred to the Management Account.

**Chapter 200-2 - Transfer of Funds from Administration to Development:** It was noted that \$20,000.00 had been transferred from the Administration Account to the Development Costs Account, and represented part of the accumulated surplus.

**Chapter 200-2 - Land Acquired by Eminent Domain:** The previous audit report indicated that it was estimated that the cost of certain land taken by Eminent Domain, which was then in litigation would be approximately \$17,500.00. It was noted, however, that by court order the amount was increased to approximately \$45,000.00. Of this \$28,793.43 has already been paid. The balance is still pending due to some minor adjustments which are now in the process of being arranged.

**Chapter 200-2 - Employees' Withholdings:** It was noted that the amounts withheld from employees, for Income Taxes and Pension Contributions, had not been correctly distributed.

The variations which were identified were brought to the attention of the Authority's accountant.

## MARBLEHEAD HOUSING AUTHORITY

REPORT No. 52-H-37

**General - Annual Report Not Submitted to the State Housing Board:** It was noted that the annual report required under Section 26-O of Chapter 121 of the General Laws, as amended, had not been submitted to the State Housing Board since the inception of the Authority. The necessary report including the period to December 31, 1951 was completed and forwarded while the current audit was in progress.

**Project 200-1 - Overpayment of Architect's Fees:** It was noted that an overpayment in the amount of \$325.21 had been made to the Architect. Subsequent to the date of audit, an approval was received from the State Housing Board for this amount.



Subsidy Payments - Project 200-1: A subsidy payment for the year 1951 in the amount of \$6,100.00 was paid by the Commonwealth on September 14, 1951 to the National Shawmut Bank, the fiscal agent of the Authority. This payment was based on the rate of 2 1/2% of the total Bond Issue of \$244,000.00.

Project 200-2 - Purchase of Land: As of date of audit, the price of land taken by eminent domain had not yet been finally adjudicated. This matter is now in the hands of the court.

Security Deposits: These funds are deposited in a savings bank which has not been approved as a depository. Under the contract for financial assistance no funds shall be deposited in any bank before the prior approval of the depository by the State Housing Board.

Due to the fact that these deposits are kept in a savings account, interest has accrued and to date a total of \$13.64 has been earned.

#### NORTHAMPTON HOUSING AUTHORITY

REPORT No. 52-H-38

Project 200-1 - Debt Service Fund: This Authority pays into its Debt Service Fund through its fiscal agent each year, an amount, which together with the amounts received from other sources, equals the annual total debt service requirement. This amount is paid in ten monthly payments, 1/12 of the total to be paid on or before the fifteenth of the month in each of the first nine months, and the balance to be paid on or before the fifteenth day of the tenth month of each fiscal year. There was received during this audit period the first annual Commonwealth contribution in the amount of \$23,550.00, representing 2 1/2% of the Certified Development Cost, as provided in the Contract for Financial Assistance. This amount was paid directly to the fiscal agent of the Authority.

In this connection attention is called to the fact that approximately 85% of the subsidy payments which are made to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements were made to have interest paid or credited by the fiscal agent for the use of these funds.

Investments - Debt Service Trust Fund: In order to lower the net interest cost of the bond issue, this Authority has invested, with the approval of the Chairman of the State Housing Board, \$12,000.00 of the bond premium received in U. S. Treasury Notes which are bearing interest at 1 3/4%.

Project Rents: The rents of this project are based on a graded income schedule as follows:

All tenants whose annual income does not exceed \$2,800.00 are charged a monthly shelter rental of \$35.00 regardless of the size of the family or of the unit, and for each additional \$60.00 of yearly income or part thereof, the rent is increased \$1.00 per month. The maximum salary admission limit for all tenants is \$3,200.00 and for continued occupancy, \$4,000.00.

These rental charges include water but tenants must furnish heat and electricity.

Discounts on Bills: It was noted that a total of \$95.42 for Project 200-1 and \$23.24 for the Title V Project was lost because discount terms were not taken advantage of. It is recommended that bills be passed for payment in sufficient time to allow the taking of all discounts.

Surplus Cash: It was noted that the Authority maintains two Administration bank accounts under Project 200-1. As of November 30, 1951 there was \$10,000.00 on deposit in one bank and \$13,291.57 in another bank. As the balance in the former account has been inactive since March 3, 1951, it is suggested that steps be taken to invest it where it may earn interest until such time as a need for it develops.

Title V Project: In this connection the previous audit report stated:

"It is recommended that the records of the Northampton Housing Authority pertaining to the Title V Project be placed on a cash basis as per instructions contained in letter dated January 16, 1951 from the Chairman of the State Housing Board."

It was, however, noted that there is being maintained an insurance prepaid account on the financial records. It is again recommended that the project be placed on a complete cash basis in conformance with the instructions from the State Housing Board.

**Title V Project - Surplus:** Since the Northampton Housing Authority accepted the Title V Project as agent for the City of Northampton on February 1, 1950, the Northampton Housing Authority has not turned over to the City of Northampton any of the surplus resulting from operations. This surplus from the initial date of operating by the Authority, February 1, 1950 to November 30, 1951 totals \$6,645.76. Attention is also called to the fact that surplus as of December 31, 1950 totaling \$3,313.75 was set up as a Reserve for Operations. It is therefore suggested that the State Housing Board issue necessary instructions to this Authority relative to the proper disposition of this surplus.

**Title V Project - Employees Bonded:** The members of the Northampton Housing Authority are now bonded under a so-called "blanket type" position bond under both Project 200-1 and the Title V Project. It is suggested that one of the bonds be canceled and the cost be prorated.

**Financial Records:** The audit of the Northampton Housing Authority was initiated on January 16, 1952. It was noted, however, that the financial records were posted only to November 30, 1951. It is recommended that immediate steps be taken to maintain all records on a current basis.

**Collection Costs:** It was noted that the Executive Director represents this Authority in court in connection with rent collection matters for which he receives a fee of 18% of the amount collected.

#### NORTH ADAMS HOUSING AUTHORITY

REPORT No. 52-H-39

**Project Rents:** The rents of this project are based on a percentage of income as follows:

<u>Number of Minor Dependents</u>	<u>Rent Percentage of Income</u>	<u>Minimum Rents</u>	<u>Admission Limits</u>	<u>Continued Occupancy Limits</u>
One or less	18%	\$30 00	\$3,650 00	\$3,900 00
Two	16%	26 50	3,775 00	4,025 00
Three or more	14%	23 50	3,900 00	4,150 00

The rental charge includes water. Each tenant must pay for heat and electricity.

**Rent Receipts:** It is recommended that the rent receipts used by the Authority be pre-numbered by the printer on all future purchases.

**Employees Bonded:** It was noted that the members and employees of this Authority are not bonded. It is recommended that this Authority obtain proper coverage under a so-called "blanket type" position bond.

**Investments:** It was also noted that there were substantial surplus cash balances in both the Development and Administration Funds. It is recommended that this Authority invest these funds in United States Treasury Notes so as to lower the net cost of financing the project.

**Development Fund Cash Balance:** Attention is called to the fact that on the date of audit there was a cash balance of \$154,912.27 in the Development Fund. In this connection it was understood that the estimated future development costs of this project are only slightly in excess of \$100,000.00.

#### LAWRENCE HOUSING AUTHORITY

REPORT No. 52-H-40

**Chapter 372 - Development Funds:** It was noted that there was no activity in either of the two Development Funds since the date of the previous audit. It was understood that there is a dispute between the Authority and the contractor, and in this connection it was noted that a check in the amount of \$96.31 was sent to the contractor in final settlement.



of his contract and it was returned.

It is understood that when the contractor accepts this final payment the balances in the Development Funds totaling \$12,115.34 will be turned over to the City of Lawrence.

**Chapter 372 - Commonwealth's Subsidy Payment:** The receipts of the annual subsidy from the Commonwealth in the amount of \$20,915.63 by the City of Lawrence was verified. This amount represents the third subsidy payment and brings the total to 6% of the verified Development Cost or \$62,746.89.

**Chapter 372 - Tenants' Accounts Receivable:** It was noted that the Tenants' Accounts Receivable as of the date of audit totaled \$2,934.07. This amount appears to be excessive and it is suggested that immediate steps be taken to reduce these unpaid items to a minimum.

**Chapter 200-1 - Permanent Financing:** The final Development Cost of this project was determined to be \$2,400,000.00 by the State Housing Board. Bonds in this amount, at an interest rate of 2 1/8% maturing serially for forty years, were issued by the Authority as of July 1, 1951.

It was noted that the Commonwealth made its first subsidy payment to the Authority in an amount of \$60,000.00 which is 2 1/2% of this Development Cost. In this connection attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

The Development Fund and the Administration Fund - Initial Operating Period were audited for the period from January 1, 1951 to June 30, 1951. On June 30, 1951 the balances in these two accounts were transferred to the Management Accounts and they were audited for the period from July 1, 1951 to January 31, 1952.

**Tenants' Accounts Receivable:** The trial balance taken as of the date of this audit indicated that the total of these outstanding accounts amounted to \$4,827.47.

This amount is excessive for a project of this size and it is again suggested that the present collection procedure be reviewed to see whether better collections cannot be effected.

## FRAMINGHAM HOUSING AUTHORITY

REPORT No. 52-H-41

### Chapter 372

**General:** The Framingham Housing Authority had not paid to the date of audit to the Town of Framingham the surplus from the operations of the Title V and Chapter 372 projects for the 1951 calendar year. Although the surpluses have been transferred on the accounts to the Accounts Payable, it was indicated by the Executive Director that the actual transfer of funds will be made when the surplus is certified by a representative of the State Housing Board.

**Subsidy Payments:** The Chapter 372 project is entitled to receive total subsidy payments of \$28,025.80 which is based on 10% of the original appropriation in the amount of \$280,258.19. These payments are to be paid over a 5 year period which began in 1948. The subsidy payments to date have totaled \$22,420.64. The last payment of \$5,605.16 will be paid during the 1952 year.

**Books of Account:** The previous audit report stated that the books of account had not been posted currently. It was noted that this condition has been corrected and the records are now being currently maintained.

### Project 200-1

**Permanent Financing:** The Development Fund and the Administration Fund - Initial Operating Period - were audited from December 31, 1950 to June 30, 1951. As of June 30, 1951, the balances of these funds were transferred to the Management Accounts under Permanent Financing.

The balance in the cash account of the Development Fund was \$62,904.37. Of this amount \$44,200.00 was transferred to Debt Service Fund for the retirement of temporary notes totaling \$4,000.00 and accrued interest totaling \$40,200.00. This interest included

\$33,500.00 accrued to June 30, 1951 and \$6,700.00 which was accrued to the maturity of notes then outstanding. The following shows the distribution of the Development Fund cash etc.:

Cash Available		\$62,904 37
Transferred as Shown Above		<u>44,200 00</u>
Balance for Other Liabilities		\$18,704 37
Contract Retentions	\$10,000 00	
Accounts Payable	16,774 04	
Income Tax Withholdings	<u>58 40</u>	26,832 44
Excess of Liabilities Over Available Cash		<u>\$8,128 07</u>
Accounts Receivable - June 30, 1951		\$6,993 52
Accounts Receivable:		
Interest Paid - July 1951	\$6,700 00	
Unamortized Premium	<u>(5,565 45)</u>	1,134 55
Total Accounts Receivable		<u>\$8,128 07</u>

The balance in the Administration Fund on that same date was \$28,619.48. This amount was disposed of as follows:

Cash Available		\$28,619 48
Accounts Payable	\$ 8,134 56	
Security Deposits	1,100 00	
Income Tax Withholdings	236 05	
Accrued Payments in Lieu of Taxes	1,350 00	
Reserve for Insurance	11,000 00	
Operating Reserve	<u>6,889 00</u>	28,709 61
Excess of Liabilities Over Available Cash		<u>\$90 13</u>
Accounts Receivable - Tenants'	\$491 38	
Prepaid Rents	<u>(401 25)</u>	<u>\$90 13</u>

This Authority entered into Permanent Financing for this project with an issue and sale of bonds in the amount of \$1,336,000.00 on July 1, 1951. The purchaser of these bonds was Lehman Brothers, Phelps, Fenn and Company and Associates with a bid of  $2\frac{1}{8}\%$ , and a premium of \$14,816.24 which reduced the total interest cost to \$646,016.26. This appeared to be the most advantageous bid of those seen.

The Commonwealth may make an annual contribution of not more than  $2\frac{1}{2}\%$  of the final Development costs. This contribution for the first year of operation under Permanent Financing totaled \$33,400.00.

It was noted that this contribution was paid to the First National Bank of Boston, the fiscal agent of the Framingham Housing Authority, on November 23, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for seven months and seven days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenants' net family income, as follows:

18% for families with one or less minor dependent.

16% for families with two minor dependents.

14% for families with three or more minor dependents, with an additional deduction of \$100.00 from total income for each minor dependent child in excess of three.

Irrespective of these rent-income ratios, minimum monthly rates have been established as follows:



\$30.00 for families with one or less minor dependents.

\$26.50 for families with two minor dependents.

\$23.50 for families with three or more minor dependents.

Utility Charges: Additional charges are made for utilities as follows:

Heat and Hot Water:

2 Bedroom Units	\$8 00 per month
3 Bedroom Units	9 25 per month

Electricity:

The tenants are billed directly by the utility company.

Rents charged actually range from a minimum of \$32.75 to a maximum of \$70.00 with an average monthly rental charge of \$48.68.

Admission and continued occupancy limits have been established as follows:

	<u>Admission</u>	<u>Continued Occupancy</u>
Families with one minor or less dependents	\$3,650 00	\$3,900 00
Families with two minor dependents	3,775 00	4,025 00
Families with three or more minor dependents	3,900 00	4,150 00

It has been estimated that the income from rents will be adequate to cover the costs of operating the project, taking into consideration the subsidy receipt from the Commonwealth.

#### Project 200-2

Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited from December 31, 1950 to June 30, 1951. As of June 30, 1951 the balances of these funds were transferred to the Management Accounts.

The balance in the cash account of the Development Fund on that date was \$7,599.68 and was distributed as follows:

Cash Available		\$ 7,599 68
Accounts Payable	\$2,555 77	
Contract Retentions	2,500 00	
Income Tax Withholdings	1 65	5,057 42
Cash Balance		\$ 2,542 26
Accounts Receivable		8,275 24
Total Available		<u>\$10,817 50</u>
Temporary Notes Retired		\$ 6,000 00
Accrued Interest on Notes		4,817 50
		<u>\$10,817 50</u>

On the same date the cash balance in the Administration Fund was \$21,510.24 and was distributed as follows:

Cash Available		\$21,510 24
Accounts Payable	\$8,988 31	
Income Tax Withholdings	104 90	
Security Deposits	740 00	
Accrued Payments in Lieu of Taxes	1,110 00	
Reserve for Insurance	6,500 00	
Operating Reserve	4,078 00	21,521 21

Excess of Liabilities over Available Cash		<u>\$10 97</u>
Accounts Receivable - Tenants'	\$396 93	
Prepaid Rents	<u>(385 96)</u>	<u>\$10 97</u>

This Authority entered into Permanent Financing for this project with an issue and sale of bonds in the amount of \$840,000.00 as of July 1, 1951. The purchaser of these bonds was Lehman Brothers, Phelps, Fenn and Company and Associates with a bid of 2 1/8%, and a premium of \$9,315.60, reducing the total interest cost to \$405,866.90. This appeared to be the most advantageous bid of those seen.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the total Development costs. This contribution for the first year of operation under Permanent Financing was \$21,000.00.

It was noted that this contribution was paid to the First National Bank of Boston, the fiscal agent of the Framingham Housing Authority, on November 23, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for seven months and seven days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenants' net family income, as follows:

18% for families with one or less minor dependent.

16% for families with two minor dependents.

14% for families with three or more minor dependents, with an additional deduction of \$100.00 from total income for each minor dependent child in excess of three.

Irrespective of these rent-income ratios, minimum monthly rates have been established as follows:

\$30.00 for families with one or less minor dependent

\$26.50 for families with two minor dependents

\$23.50 for families with three or more minor dependents

Utility Charges: Additional charges are made for utilities as follows:

Gas (Cooking and Domestic Hot Water):	
2 Bedroom Units	\$3.81 per month
3 Bedroom Units	4.18 per month

Periodic adjustments based on actual use will be made to these charges.

Rents charged actually range from a minimum of \$28.18 to a maximum of \$77.94 with an average monthly rental charge of \$46.14.

Admission and continued occupancy limits which have been established are identical with those for Project 200-1.

Miscellaneous Income: The Framingham Housing Authority received a credit allowance of \$4,400.00 from the Boston Edison Co. for the wiring of 110 electric ranges in the 200-1 project. This cash was deposited to the credit of the Appropriated Fund. It is suggested that steps be taken to establish the proper account to which this item should be credited.

FALL RIVER HOUSING AUTHORITY

REPORT No. 52-H-42

Pay Roll Expenses: All pay roll expenses are paid in the first instance from the bank account of the Federally-Aided Project 6-1 and at the end of each month the several projects reimburse this project for their respective shares of these expenses.

In order to provide the cash to meet these expenses, the several projects have made advances from their funds which were deposited in the bank account of Project 6-1. These



advances, however, are carried as "Accounts Payable - Sundry" on the books of this project and as "Accounts Receivable - Sundry" on the accounts of the projects which advanced the funds.

As of January 31, 1952 these advances comprised the following:

Title V	\$2,000 00
Project 200-1	1,200 00
Project 200-2	1,500 00
Project 200-3	1,000 00

Revolving Fund: During the period under audit a revolving fund was established to facilitate the payment of expenses, other than pay roll, which are chargeable to two or more projects.

These expenses are charged whenever possible on the basis of applicability and when such distribution is not feasible, an allocation is made on the basis of the number of units.

In this connection, it was noted that all disbursements for one month were recorded on one day in that month, and simultaneously the several projects reimbursed this Fund for their shares.

This procedure was changed, however, and now the several projects make advances to the Revolving Fund so that disbursements from this Fund can be made at any time, and accordingly the Fund is now reimbursed by each project at the end of each month.

Tenants' Accounts Receivable Outstanding: A review of the balances outstanding in the tenants' accounts receivable account indicates that closer supervision of the collections particularly in the Title V project and Project 200-2 is necessary in order to prevent losses.

As of January 31, 1952, the balances outstanding in the Title V project were 9.38% of the estimating yearly rental income and in Project 200-2 the balances outstanding were 3.90% of the estimated yearly rental income.

Charge-Off of Delinquent Accounts: Attention is called to the fact that during the period under audit delinquent tenants' accounts receivable were charged off as uncollectible by the local Authority as follows:

Title V	\$288 48
Project 200-1	183 18
Project 200-2	731 35
Project 200-3	35 15

In this connection, it was noted that the balances were charged off on the Chapter 200 projects without the prior approval of the State Housing Board. It was noted that the State Housing Board advised this Authority subsequent to the date of audit to reverse its original action because it had not adhered to this regulation.

Architects' Fees: Although the payments to the architects of the Chapter 200 projects appeared to be in conformance with the original terms of their contract, the approvals by the State Housing Board for these fees did not appear to be available.

Inasmuch as instructions have been issued by the State Housing Board that all architects' fees should be so approved, it is advised that the computation of these fees be submitted to the State Housing Board for review and approval as soon as possible.

Supplementary Pay Roll Expenses: Occasionally overtime work is necessitated by emergencies such as snow removal, broken water pipes, etc.

Payments for such items are made directly to the employee from the funds of the particular project involved and usually from petty cash funds.

In many instances these payments were substantiated only by the employee's signed receipt. However, it was noted that no authorization for these payments was available nor was there any evidence presented of the hours worked.

It is suggested that payments for these items be handled in the same manner as regular pay roll expenses in order to provide effective internal control and also to facilitate the preparation of any pay roll analyses required.

Rent - Project 200-1, 200-2 and 200-3: Under the management program adopted by this Authority, the schedules of rents and incomes for these projects were established as follows:

	<u>Admission Income Limit</u>	<u>Continued Occupancy Limit</u>	<u>Percentage of Income Used in Computing Rents</u>	<u>Minimum Rent</u>
For families with less than three minor dependents	\$3,250 00	\$3,750 00	18 1/2%	\$29 50
For families with more than three minor dependents	3,500 00	4,000 00	14 1/2%	23 00

In addition the utility charges were established as follows:

<u>Bedrooms per Unit</u>	<u>Heat</u>	<u>Gas and Electricity</u>	<u>Total</u>
One	\$ 7 70	\$3 23	\$10 93*
Two	10 15	3 62	13 77*
Three	12 25	4 29	16 54*
Four	14 00	4 55	18 55*

\* Periodic adjustments based on actual use will be made to these charges.

**Title V - Surplus:** It was noted that the operating profit from this project for the year ended December 31, 1951 on an accrual basis totaled \$9,765.02. It was noted, however, that this surplus had not yet been paid to the City, although it was learned that a check in the amount of \$7,964.84 drawn to the City has been prepared and will be remitted in the near future. This latter amount represents the operating profit on the cash basis for the calendar year 1951.

As of January 31, 1952, the balance in the surplus account amounted to \$4,557.07 on an accrual basis.

**Title V - Operating Reserve:** It was noted that the Operating Reserve on this project was increased by \$3,126.61 for the year ending December 31, 1951, even though the budget approved by the State Housing Board set up this amount as \$2,862.00.

It was noted, however, that subsequent to the audit date this difference of \$264.61 was transferred from the Operating Reserve to the Surplus Account.

**Title V - Rents:** The regular established rent for this project is \$25.00 a month. However, in the event that a reduction is necessary because of so-called hardship cases, the rent is adjusted to 20% of the total net family income as follows:

<u>Net Family Income</u>	<u>Rental Charge</u>
\$120 00	\$24 00
110 00	22 00
100 00	20 00
Less than 100 00	19 50 Minimum

**Project 200-1 - Delay in Acceptance:** Although this project has been completed for some time, its acceptance has been delayed because of legal difficulties between the general contractor and one of the sub-contractors. This has necessarily resulted in final payment to the contractor being withheld.

**Project 200-1 - Contract for Financial Assistance:** It was noted that the certificate of purposes and statement of cash requirements was reduced from \$1,600,000.00 to \$1,450,000.00 because the number of dwelling units to be built was reduced from 149 to 131.

To date of audit, the revised contract for financial assistance had not been received by the local Authority from the State Housing Board.

**Project 200-2 - Operating Reserve:** It was noted that the entire operating profit for the fiscal year ended September 30, 1951 from this project after the receipt of the annual subsidy of \$48,400.00 from the Commonwealth was transferred to the Operating Reserve in accordance with instructions from the State Housing Board. This transfer in the amount of \$23,002.15 brought the balance in the Operating Reserve to \$52,241.11. In this



connection, attention is called to the fact that the maximum operating reserve for this project based on existing instructions from the State Housing Board is only \$58,800.00.

Inasmuch as it is obvious that the full reserve will be available in a short time, it was brought to the attention of the State Housing Board that based on the actual operations of this project for its first year under permanent financing, if the full 2 1/2% subsidy is paid during the current year, it will result in funds being available far in excess of actual requirements.

It is, therefore, again suggested that the State Housing Board again review and consequently revise its policy of arbitrarily paying the full 2 1/2% subsidy, regardless of its apparent need by the local authorities.

**Project 200-2 - Subsidy:** The subsidy in the amount of \$48,400.00, representing 2 1/2% of the adjusted development costs of \$1,936,000.00, was approved for the Fall River Housing Authority by the Commonwealth for the year ending September 30, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months before any payments are made from it. No interest is paid or credited by the fiscal agent for the use of these funds.

**Project 200-2 - Permanent Financing:** The initial operating period of this project started February 8, 1951, the date of the first tenancy, and ended on December 31, 1951, with the issue of bonds under Permanent Financing. In this connection, it was noted that the bond issue at an interest rate of 2 1/4% was in the aggregate amount of \$1,160,000.00, the total adjusted Development Cost of the project, with a premium in the amount of \$20,738.00.

In this connection it was noted that the profit from operations during the initial operating period, \$7,399.94, was used to reduce the amount necessary under the bond issue and \$3,000.00 was used to provide for a so-called Operating Reserve. These adjustments were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development Account at that time was carried forward and was mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under temporary financing.

#### DEDHAM HOUSING AUTHORITY

REPORT No. 52-H-43

**Permanent Financing:** The initial operating period of Project 200-2 started June 15, 1951, the date of the first tenancy, and ended on September 30, 1951, with the issue of bonds under Permanent Financing. In this connection it was noted that these bonds were issued at an interest rate of 2% in the aggregate amount of \$300,000.00, the total development cost of the project.

It was also noted that the management accounts for the initial operating period were closed on September 30, 1951, and new accounts under Permanent Financing were opened as of October 1, 1951.

**Contract Award - Project 200-2:** It was noted that the Authority did not award the heating contract to the lowest bidder. The reason given was that the Authority had experienced difficulty in obtaining satisfactory performance from this contractor on a one year guarantee for maintenance and servicing of the heating equipment installed in Project 200-1. The heating bid accepted was \$555.00 in excess of the bid rejected.

**Architectural Fees - Project 200-2:** It was noted that the Authority paid architectural fees in the amount of \$6,622.94 as against a fee of \$6,073.24 computed by the State Housing Board. It appears that an overpayment of \$549.70 has been made.

**Operating Reserve - Project 200-2:** It was noted that at the end of the initial operating period an amount of \$3,270.00 was set up as an operating reserve which practically wiped out the surplus arising from temporary management operations. It is obvious that no predetermined study of the amount actually needed for an operating reserve was made and that the amount set up was based solely on the fact that this amount was available. Actually this amount is excessive in view of the fact that there are but twenty-six units in this project.

The charge to this reserve has resulted in an increase in the development costs since any income arising from operations in the initial operating period beyond normal reserve needs should have been used to reduce the amount of the development costs. Therefore, the amount of bonds issued to finance this project and the amount of the subsidy to be paid by the Commonwealth will be correspondingly increased.

Excessive Cash Balances Carried - Project 200-2: It was noted that excessive cash balances had been maintained in the Development Fund. The following schedule shows the cash funds on hand from October 31, 1950 to September 30, 1951, the end of the initial operating period.

<u>Date</u>	<u>Cash Balance</u>	<u>Date</u>	<u>Cash Balance</u>
Oct. 31, 1950	\$142,032 75	April 30, 1951	\$122,101 72
Nov. 30, 1950	338,714 18	May 31, 1951	109,850 22
Dec. 31, 1950	290,277 78	June 30, 1951	81,108 08
Jan. 31, 1951	227,010 14	July 31, 1951	79,736 34
Feb. 28, 1951	158,727 49	Aug. 31, 1951	53,870 71
Mar. 31, 1951	145,449 27	Sept. 30, 1951	55,052 18

The Authority had invested \$200,000.00 in U. S. Treasury Bills which matured in November, 1950. However, subsequent to that date no additional investments were made. The above schedule clearly indicates that the Authority possessed sufficient funds to have made further investments to earn interest on idle funds.

Subsidy Received - Project 200-1: The Authority received \$20,100.00 as a subsidy from the Commonwealth for the fiscal year ended September 30, 1951. On this date there was a surplus of \$3,950.00 with the Commonwealth subsidy included in the computation of surplus. The budget for the fiscal year ended September 30, 1952 includes a subsidy estimate of \$16,800.00, a reduction of \$4,300.00 from the maximum subsidy allowed of \$20,100.00.

Books of Account - Project 200-1: An error of \$200.00 was found in the expense analysis for the month of January, 1952. The total for the Repairs, Maintenance and Replacements account was overstated by \$200.00. This error will be corrected.

#### BRAINTREE HOUSING AUTHORITY

REPORT No. 52-H-44

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to various State and municipal officials. As no such report for the calendar year 1951 had been made to date of audit, the attention of the Executive Director was directed to it and it was understood that a report would be submitted in the near future.

Materials and Supplies - Project 200-1: It is recommended that stock ledger cards be maintained for maintenance equipment and tools. All items lost or broken should be identified and reported to the office so that the stock ledger card will always indicate the true balance.

Rents - Title V - 19117: It was noted that all these apartments are rented for \$32.00 a month.

Rents - Project 200-1: The rents for this project have been established by this Authority as follows:

	<u>January 18, 1951</u>	<u>March 9, 1951</u>
Families with 1 minor dependent	18%	18%
Income on Admission Limits	\$3,650 00	\$3,650 00
Income - Continued Occupancy	3,900 00	3,900 00
Minimum Rent	30 00	37 50
Families with 2 minor dependents	16%	16%
Income on Admission Limits	\$3,775 00	\$3,775 00
Income - Continued Occupancy	4,025 00	4,025 00
Minimum Rent	26 50	33 50
Families with 3 or more minor dependents	14%	14%
Income on Admission Limits	\$3,900 00	\$3,900 00
Income - Continued Occupancy	4,150 00	4,150 00
Minimum Rent	23 50	29 00



Average Shelter Rent (Includes a Maximum Usage of \$18.00 of water per year.)

\$40 73 per month

It was also learned that this Authority does not plan to verify and adjust the foregoing rents until after the project goes into Permanent Financing.

It was noted that the operating budget for this project estimated the average rent at \$38.71 per month.

Chapter 200 - Project 200-1 - Development Costs: It was noted that there was no control account for development costs in the general ledger or cash book. This account is prescribed by the Manual of Accounting Procedure issued by the State Housing Board and it is recommended that this account be established.

Chapter 200 - Project 200-1 - Rent Receipt Books: The rent receipts which are being used are not prenumbered by the printer and having no value for auditing purposes, were not inventoried. It is suggested that the Authority purchase prenumbered rent receipt books when its present supply is exhausted.

Chapter 200 - Project 200-1 - Change Fund: It is recommended that a change fund be put into operation. At present the Authority employees make change out of their own pockets.

Tenants' Security Deposits: It was also noted that all monies received as deposits is deposited in the Administration Fund Cash account. It is recommended that a separate bank account be opened for these deposit funds.

Visit to Projects: A visit was made to all projects at some time during the course of the audit in the company of the Clerk of the Works.

At Project 200-1, the following abnormal conditions were noted:

In some of the buildings the ceilings are turning yellow and some of the ceilings and walls are spotted. It was further noted that in some buildings there was water in the cellars. On the light stain, verticle siding buildings it would seem to appear that not enough oil stain was put on as the wood seems to stand right out.

It is understood that these items are being considered by the architect and the general contractor.

In addition a check list for the project was seen which contained several items which should be corrected in order to put the project in good condition. This list was offered by the Clerk of Works and the Executive Director. The general contractor has corrected all items contained in a similiar check list to the satisfaction of the Housing Authority on a previous occasion.

General - Books of Accounts of Authority Kept by Authority's Bookkeeper: This examination was initiated on February 14, 1952. At that time, it was noted that the financial statements for January 1952 had not yet been submitted to the State Housing Board.

It was further noted that some of the transactions in the cash receipts and cash disbursements register of the development books were recorded in pencil. These important records should be maintained in ink.

It was further noted that the rent roll was incorrect because of incorrect charges being posted to the individual tenants' sheets. The necessary changes and corrections were made adjusting this account.

Chapter 200 - Project 200-1 - Pump House: It was noted that the Authority was building a sewerage pumping station to remedy the sewerage problem which was encountered in its Commercial Street site, which consists of 18 single homes. In this connection the Town of Braintree at its Annual Town Meeting in 1951 voted to appropriate \$13,900.00 for this item as was indicated by its Article 18, as follows:

"That there be raised and appropriated for the use of the Braintree Housing Authority the sum of \$13,900.00 to be expended by the Braintree Housing Authority for the construction of a sewage pumping station to serve the State-Aided Housing Project No. 200-1, known as the Commercial Street Site, such construction to be acceptable to the Braintree Sewer Commission."

When this building is completed its title will pass to the Town of Braintree which will assume the responsibility for its operation and maintenance. It is estimated that this building will cost approximately \$20,000.00.

#### PITTSFIELD HOUSING AUTHORITY

REPORT No. 52-H-45

**Federal Project:** The financial records of the Federal project were not examined. It is understood that they are subject to examination by Federal auditors.

**Project Rents:** The admission and continued occupancy income limits and the percentage of income for rent computation for this project were established as follows by this Authority:

<u>Number of Minor Dependents</u>	<u>Admission Income</u>	<u>Continued Occupancy Income</u>	<u>Per Cent Of Income</u>
Less Than 3	\$3,000 00	\$3,750 00	19 1/2%
More Than 3	3,300 00	4,000 00	14 1/2%

This Authority furnishes the water used by the tenants. All other utility charges such as electricity, gas, heat, etc., are paid directly by the respective tenants.

**Delinquent Rents:** It was noted that there appeared to be an unusually high percentage of delinquent rents. In this connection it was noted that as of the date of audit the accounts in arrears totaled \$3,981.64, and represented approximately 78 per cent of the total monthly rent schedule. It is recommended that necessary action be taken to collect these past due rents. It is further suggested that future tenants be screened more carefully so as to prevent any loss of this nature.

**Vacancy Loss:** It was noted that no vacancy loss has been entered on the records since the initial date of occupancy although such losses have occurred. It is suggested that such vacancy losses be computed and properly entered.

**Members of the Authority:** It was noted that the term of one member of the Pittsfield Housing Authority expired on March 1, 1950 and another member had resigned in October 1951. As of the date of audit no action had been initiated to reappoint or replace these members.

**Permanent Financing:** As of the date of audit, Project 200-1 has been completely occupied for a period of approximately 2 1/2 years. During this period all financing has been arranged on a temporary basis. It is suggested that the necessary steps be taken to place this project under Permanent Financing as soon as possible.

#### METHUEN HOUSING AUTHORITY

REPORT No. 52-H-46

**Duplicate Deposit Slips:** It was noted that no duplicate deposit slips are retained, therefore, the deposits could not be completely identified. This matter was brought to the attention of the Executive Director and henceforth duplicate deposit slips will be prepared and kept on file.

**Annual Report:** This report which is required to be compiled and filed before the 31st day of January for the previous year, had still not been filed on the date of audit.

**Posting of Disbursements to Cash Book and Control Accounts:** It was noted that checks drawn in payment of bills were posted as being paid the previous month in the cash and control accounts. The date of the postings, etc., should be in agreement in all related records.

**Tenants' Ledger:** It was noted that postings to this account were made at the end of the month after all rents were collected rather than at the first of the month when rent was due. It is understood that this arrangement will be corrected.

**Visit to Projects:** A visit was made of projects under Chapters 372 and 200. It was noted on Project 200 that the paint condition was very poor, as it had peeled off the wood in many places. It was also noted that there were several different shades of gray on



buildings which are supposed to be painted white. It was understood that these conditions began to appear within three months after completion of the work.

**Surplus Operating Income - Project 200-1:** It was noted that the surplus from the first year of operations in the amount of \$7,574.13 was transferred to the Operating Reserve as of December 31, 1951. The principle permitting such a transfer is questioned. All additions to this reserve should be based on some predetermined basis.

# ARLINGTON HOUSING AUTHORITY

REPORT No. 52-H-47

**Books Not Currently Posted:** This audit was initiated on March 4, 1952 and it was noted that several of the records had not been posted beyond December 31, 1951. It is pointed out that all records should be currently maintained at all times, otherwise their value is not completely effective.

**Development Fund - Project 200-1:** The general ledger and bank balance of this fund as of February 29, 1952 reflected a cash balance of \$923.49. The balance, however, should have been \$2,271.56 - the difference of \$1,348.07 was the following:

The balance of the advance of \$5,000.00 originally made to the Administration Account for the purchase of land was charged to Development Costs. Therefore the Development Fund should have been reimbursed from the Administration Fund in the amount of	\$1,645 58
The Petty Cash Fund originally set up as Development had not been transferred to the Administration when the account went into Permanent Financing	25 00
Due from Administration	\$1,670 58
An insurance refund had been incorrectly handled in the previous audit period and set up as a Payable to the Administration Fund but the funds had not been transferred - Due to Administration	322 51
Net Amount Due to the Development Fund	<u>\$1,348 07</u>

The adjustment of the foregoing will increase the Development Fund cash in that fund to \$2,271.56 which will be in agreement with the Development Accounts Payable carried on the Balance Sheet. When this is done the Accounts Payable will also require an adjustment of \$1,542.86 because of the balance resulting from over-estimating the "Accounts Payable" when the project went into Permanent Financing. This amount should be adjusted as these funds should not be used for any purpose other than that originally intended.

**Administration Fund:** It was also noted that a Tenants' Security Deposit of \$25.00 was still being retained in the Administration Fund although a separate account had been opened for the Tenants' Security Deposits. This amount should be transferred to the proper account.

**Tenants' Security Deposits:** It was noted that the combined balances of the cash and investments accounts were short \$25.00. This shortage was due to a deposit which was originally in the Administration Fund and was never transferred to the Tenants' Security Deposit Account.

**Tenants' Security Deposits - Investments:** It was noted that this Authority had purchased on January 17, 1952, bonds in the amount of \$3,000.00. These securities were, however, being held by the Executive Director, in his desk drawer. As these securities are in negotiable form they should be kept in a more secure place.

**Potential Rents:** It was noted that Potential Rents were not being set up as prescribed in the Manual of Accounts. The figures are being established at the end of the month instead of at the beginning of the month.

**Debt Service Fund and Accounts Payable:** It was noted that a payment to the Debt Service Fund in the amount of \$3,060.24 had been cleared through Accounts Payable although it had not originally been set up in that category.

It was noted also that the accrual on December 31, 1951 of Accounts Payable was

over-estimated by \$336.00 the estimate of distribution to Board Members of the 1% of Rental Income.

**Service Charge - Delinquent Rents:** It was noted that a service charge of \$.50 was being made to tenants delinquent in payment of rents. The collections through these charges amounted to \$102.50 for the period of audit. The legality of these charges are questioned and should be discussed with the State Housing Board.

**Project 200-2 - Development Costs:** It was noted that these costs were understated by \$2,694.83 due to the following:

Carrying Charges - Interest had been shown as a credit, indicating net earnings on investments over the interest payable. It was found, however, that an error had been made in the establishment of the first three months' charges.

Because of the foregoing the Accrued Interest Account was understated in the amount of \$2,884.17 and the Unamortized Bond Premium account was also understated in the amount of \$189.34.

**Bank Service Charge:** It was noted that the bank had charged a "Service Charge" for the collection of Treasury Bills which matured on December 27, 1951. This charge did not appear on the books of the Authority.

**Minutes:** It was noted that none of the minutes of the meetings held during the audit period had been signed by either the secretary who is also Executive Director, or by any of the members of the Board. In this connection Section 6 of the By-Laws of the Authority states that the minutes of the previous meeting shall be read and approved.

**Vending Machine:** There is a cigarette vending machine in the office of the Authority for the convenience of the tenants. Attention is called to the fact that this machine is in the name of the Menotomy Manor Tenants' Association and that the income averaging \$2.50 monthly derived from it was used for a Christmas Party for the children on the project.

**Inspection of the Projects:** Project 200-1 was very well kept and very attractive looking. The only noticeable defect was that the paint on the windows was in need of repair. This matter had been taken up with the State Housing Board and approval secured to do the necessary work. The expenditures involved have been included in the budget for 1952.

Project 200-2 was in the process of construction and it was anticipated that it will be ready for occupancy not later than September 1, 1952.

#### WOBURN HOUSING AUTHORITY

REPORT No. 52-H-48

**Distribution of Salaries:** This Authority has under its control three housing projects, two are State aided projects and the other is a Federal project. Since the employees of the Authority perform services for more than one project, the Authority has adopted the policy of distributing the salaries of these employees in the ratio of the number of units in the projects concerned.

An analysis of this distribution revealed that the net salary after deducting income tax had been distributed in the ratio described above, but that the amount of the income tax withheld had been added to the share apportioned to Project 200-1. This method of apportionment has resulted in an overcharge to Project 200-1 in the amount of \$508.97, which amount is due from the following:

Project 200-2	-	\$266 15
Federal Project 19-1	-	242 82
		<u>\$508 97</u>

It is understood that checks will be drawn in favor of Project 200-1 for the above amounts.

**Salary Overpayments:** It was noted that salary overpayments of \$16.46 were made to two employees.



These overpayments are to be deducted from the appropriate employees.

Bad Debts Written Off: Tenants' Accounts Receivable in the amount of \$257.49 were written off as uncollectible with the approval of the State Housing Board.

Accounts Payable - Development, Project 200-2: It was noted that Accounts Payable - Development in the amount of \$391.75 are still carried on the books of the project. This balance represents a payment made from the Administration Fund for the Development Fund. Since the Development Fund bank account had been closed out in September, 1951, there is no possibility that this liability will be paid. It is recommended that this account be written off.

Contract Retentions - Project 200-2: Contract retentions in the amount of \$135.00 are still reflected on the books of the Authority even though the final payment to the contractor has been made. This balance represents a reduction in the contract price per change order #22. It is recommended that some disposition be made of this account.

Security Deposits: The Authority requires a security deposit from each tenant in the amount of \$10.00. This deposit will be returned to the tenant on the termination of his lease after deducting rent due and charges for replacement or repairs of damaged property for which the tenant is responsible.

In this connection it was found that three security deposits had not been applied when vacating tenants were delinquent in their rents. It was also noted that one tenant had not yet paid his security deposit although occupying an apartment for six months.

Drainage and Sewer System - Project 200-2: Several months after the occupancy of this project, the Authority experienced difficulties in the functioning of the drainage and sewerage systems. It was found necessary, thereafter, to install a complete new drainage system and to make a major modification in the sewerage system. These changes, to date of audit, have cost a total of \$19,276.09.

The Executive Director has estimated that this amount will cover 80% of the work required and that the contractor could not be held liable because the contractor had followed the specifications for the drainage and sewerage system as outlined in the contract.

It is understood that prior to the construction of this project the State Housing Board had insisted on changes in the original plans and specifications for this drainage system and that these changes are largely responsible for these conditions.

Permanent Financing - Project 200-2: The Initial Operating Period of this project started November 1, 1949, the date of the first tenancy, and ended on September 30, 1951, with the issue of bonds under the permanent financing. In this connection it was noted that the bond issue, in the aggregate amount of \$716,000.00, was issued at an interest rate of 2%. The total net development cost of the project was \$716,000.00. During the Initial Operating Period the Net Income from Operations was \$37,173.13. The disposition of this income is shown below:

Provision for Insurance Reserve	\$ 5,200 00
Provision for Payment in Lieu of Taxes	1,200 00
Provision for Operating Reserve	11,154 00
To Reduce Development Cost	19,619 13
Total	<u>\$37,173 13</u>

At the time of entrance into permanent financing it was found that accounts payable in the amount of \$2,800.00 were set up and charged to Development Cost. These liabilities were estimated to be for the following purposes:

Bond Costs	\$1,500 00
Landscaping	300 00
Hot Top	300 00
Repair - Plastering	500 00
Painting	200 00
	<u>\$2,800 00</u>

It was noted that actual bond costs of \$1,476.22 had been charged to accounts payable, but the other items that had been set up in this account were charged to current operations

when they were paid as follows:

<u>Purpose</u>	<u>Amount</u>	<u>Charged to</u>
Plastering	\$195 00	Repairs, Maintenance and Replacements
Plastering	34 52	Repairs, Maintenance and Replacements

It is recommended that the proper adjustments be made.

#### WEYMOUTH HOUSING AUTHORITY

REPORT No. 52-H-49

General - Books of Account: Although this examination was initiated on March 5, 1952, it was noted that the cash books and ledgers had not been posted since January 31, 1952. These records are posted by a private accountant who visits the office periodically.

In this connection attention is called to the fact that although the manual of instructions of the State Housing Board requires that certain financial information be submitted by the 10th day of the following month, this Authority had not submitted these reports on time during any of the months covered by this audit.

#### Project 200-1

#### Rents:

	<u>Small Families</u> (Less than three minor dependents)	<u>Large Families</u> (Three or more minor dependents)
Rent Income Ratios	<u>18%</u>	<u>14%</u>
Income Limits:		
Admission	\$3,250 00	\$3,500 00
Continued Occupancy	3,750 00	4,000 00
Minimum Rents	\$30 00	\$23 50

#### Utility Charges as follows:

##### Electricity:

<u>Dwelling Unit Size</u>	<u>Monthly Quantities</u>	<u>Monthly Charge</u>
2 Bedroom Unit	124 KWH	\$2 70
3 Bedroom Unit	136 KWH	2 92

##### Gas:

<u>Dwelling Unit Size</u>	<u>Monthly Quantities</u>	<u>Monthly Charge</u>
2 Bedroom Unit	4,981 cu. ft.	\$4 50
3 Bedroom Unit	5,644 cu. ft.	5 08

Average Rent (Including all utilities except heat) \$45 77 per month

Average Shelter Rent 37 57 per month

It has been estimated that these rents will be adequate to cover the operating costs of the project. Periodically each tenant's income is verified and the rent is adjusted to reflect any change.

It was also noted that the preliminary budget for this project estimated the average shelter rent at \$33.64 per month.

Luncheons and Conferences: Attention is called to the fact that since August 31, 1950 a total of \$335.85 has been expended for meals etc. This amount was charged as follows:



Development Fund	\$ 54 84
Administration Fund	281 01
	<u>\$335 85</u>

Of this amount, \$147.55 was for the dinner at the dedication of the project.

It was also noted that refreshments which were served at the meetings of this Authority during the period under audit totaled \$134.14. This would appear to be somewhat of an irregular nature and should not be encouraged.

Minute Book: It was noted that the necessary "Waiver of Notice and Consent to a Special Meeting" was not signed by all of the members of the Authority. It was also noted that many of the minutes of the meetings were not signed by the Executive Director, who acts as the secretary. Greater care should be exercised in these matters in the future.

Administration Fund Agreement: It was noted that this Authority had two Administration Fund bank accounts but had only entered into one Administration Fund agreement. Inasmuch as written approval from the Chairman of the State Housing Board must be obtained as to the acceptability of the depository prior to the opening of a bank account, it is suggested that a second agreement be made.

Dispute over Typewriter: It was learned that a Corona Clipper portable typewriter which is owned by the Authority is in the possession of a State Construction Advisor, who is employed by the State Housing Board, who refuses to return it insisting that it was given to him by a former member of the Authority. It is recommended that immediate steps be taken to satisfactorily adjust this matter.

Change Orders - (Contract Awards): It was noted that Change Order #12, Change Order #14 and Change Order #26 were missing from the office files and were not immediately available for use in connection with this examination. It is recommended that copies of these change orders be obtained for file purposes.

Status of Project - Temporary Financing: Although this project has been in occupancy sixteen months, it is still in Temporary Financing because of litigation involving land takings. It is understood that the Authority has offered \$.06 per square foot for the parcel of land which contains 587,643 square feet while the owner wants \$.12 1/2 per square foot. This matter is now awaiting a court decision.

Improper Charges to Operating Expense - Development Account: It was noted that certain charges totaling \$12.05 made in October, 1950 for office supplies were posted to the account for "Operating Expense - Development Cost." This should have been charged to the account "Office Supplies, Sundry."

It was also noted that certain salaries totaling \$406.90 were charged in error in March, 1951 to the account "Operating Expense - Development" when they should have been charged to the "Management Expenses" account.

It was also noted that a \$5.00 travel item was also charged to this account, instead of to the "Travel Expense" account.

It is recommended that the necessary adjustments be made as soon as possible.

Extra Utilities Charged: It was noted that tenants are charged monthly for excess gas and electricity used in excess of the amount allowed. At a meeting of this Authority held on December 17, 1951, it was voted to reimburse the present tenants only for amounts paid of their respective allowances, but to date no adjustments had been made.

Visit to Project: This project was visited in the company of the maintenance men employed by the Authority. The following conditions were noted:

The paint on all exterior surfaces is badly blistered and rust spots are appearing from the nails. This was apparently caused by the fact that the nails were not countersunk and putty was not used to fill in openings. In this connection the contract specifications state -- "Cracks, nail holes, and other openings shall be thoroughly filled with putty after priming or stain coat and again before finish coat. In stained work, putty shall be colored to match the color of the stained wood." It was also noted that the conditions on the outside of these homes is very poor.

It was further noted that many outside doors do not fit properly. The center

of the doors fits tightly, there are spaces between the top and the bottom of the doors and the frames.

It was also noted that there are a few broken tiles in the hallways.

#### MEDFORD HOUSING AUTHORITY

REPORT No. 52-H-50

**Revolving Fund:** The only records for this account are the cash receipts and disbursements book. An analysis of these records disclosed that a payment in the amount of \$6.25 for an employee's contribution to the City's retirement system should have been made in October 1951 and was still not made as of the audit date. This is the result of not maintaining the proper general ledger accounts. To avoid any such oversight in the future, it is recommended that a general ledger be set up and maintained for this fund.

**General - Erasures in Tenants' Ledger and Rent Roll:** An examination of these records disclosed that when it is necessary to make an adjustment to these accounts, because of a tenant moving out or for other reasons, the procedure used is to eradicate the original charge and enter the new amount. This method of adjustment is obviously an improper one, and it is recommended that the procedure established in the Manual of Instructions issued by the State Housing Board be followed.

**General - Appointment of Members to the Authority:** It was noted that a member of the Authority whose term had expired April 1, 1950 had not been reappointed, nor had anyone been appointed to replace him as of the date of this audit. Examination of the minutes of the Authority's meetings disclosed that this member, who by law is a holdover in office until a successor is sworn in, had not attended a meeting of the Authority for over a year.

The statute under which this Authority was organized states that there shall be five members and it is understood that this matter was brought to the attention of the governing body of the City by the office of the Attorney General at the time bonds were being sold to place Project 200-1 in permanent financing.

The existing situation should be remedied as soon as possible in order that the Authority function with the number of members required by law.

**Project 200-1 - Operating Reserve:** The method of accumulating reserves for Repairs, Maintenance and Replacements, Vacancy and Collection Loss, and Debt Service Reserve, has recently been revised. However, as of the date of audit, the former method of accumulating reserves is still being used on this project's books. If this method is continued it will result in an over-reservation of approximately \$2,500.00, which will correspondingly reduce the surplus account. Since this surplus should be used to reduce the Commonwealth's contribution in the subsequent years it is recommended that before the books of this project are closed at the end of the fiscal year, the proper adjustment be made to this account.

**Acquisition of Land - Project 200-2:** It was noted that a check dated January 24, 1951 in the amount of \$268.00, was still outstanding as of the date of this audit. Further investigation disclosed that this check had been made out to the City of Medford for the purchase of land for this project. It was further understood that this check had been returned to the Authority by the City. Inquiry of the City Manager was made and he stated that he was unaware of any such check; he further stated that if such a check had been received it would have been a premature payment.

Since the City Council has now approved the granting of the deed to this land, there appears to be no reason why this financial transaction should not be completed. It is suggested that the Authority stop payment on the original check and issue a new check to the City.

**Status of Project 200-2:** Although more than two years have elapsed since the signing of the Contract for Financial Assistance on September 1, 1949, this project is still in the planning stage. It is understood that the lengthy delay in the construction of this project is due to the fact that the City of Medford has suggested that single homes be built in lieu of the multiple units originally planned. The City Council has agreed to contribute not in excess of \$500,000.00 for this purpose.

At the present time, an architect is in the process of preparing plans and estimates for the construction of 123 single homes. The Authority had originally planned to construct 150 multiple units.



## UXBRIDGE HOUSING AUTHORITY

REPORT No. 52-H-51

**Debt Service Payments:** This Authority pays into the Debt Service Fund through its fiscal agent each year from rental income, etc., an amount which together with amounts received from other sources will equal that fiscal year's debt requirements. This amount is being paid in ten monthly payments on or before the fifteenth of each of the first nine months and the balance on or before the fifteenth of the tenth month.

There has been received from the Commonwealth as provided in the Contract for Financial Assistance, the first annual subsidy in the amount of \$6,375.00 which represents 2 1/2% of the total certified Development Costs. This payment was made directly to the fiscal agent for the Authority on June 21, 1951.

In connection with the foregoing, attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

**Rents:** Rents for the respective units were established on the basis of the tenant's net family income, as follows:

<u>Income</u>	<u>Less than Three Minor Dependents</u>	<u>Three or more Minor Dependents</u>
\$2,000 00 - \$2,500 00	\$34 50	\$32 00
2,501 00 - 3,000 00	37 50	36 00
3,001 00 - 3,250 00	40 50	-
3,001 00 - 3,500 00	-	39 00
3,251 00 - 3,750 00	46 00	-
3,501 00 - 4,000 00	-	44 00

Tenants who are ineligible due to income in excess of the continued occupancy limits are charged a flat rental of \$58.50.

Rents charged, however, actually range from a minimum of \$32.00 to a maximum of \$46.00 with an average rental charge of \$37.87.

Admission and continued occupancy limits have been established by this Authority as follows:

	<u>Admission</u>	<u>Continued Occupancy</u>
Families with less than three minor dependents	\$3,250 00	\$3,750 00
Families with three or more minor dependents	3,500 00	4,000 00

The first year of operations under permanent financing showed a profit of \$3,181.07, which included the subsidy payment from the Commonwealth in the amount of \$6,375.00.

**Lack of Records:** The previous audit report commented, to the fact, that there was no Tenants' Accounts Receivable ledger. In this connection, attention is called to the fact that such a record is now available.

## GREENFIELD HOUSING AUTHORITY

REPORT No. 52-H-52

**Title V Project:** During the period under audit, the financial records of this project were closed out as of July 19, 1951, and all surplus funds were paid to the Town of Greenfield. The final payment in the amount of \$12,397.36 represented the balances in the following accounts as of that date:

Reserve for Taxes		\$ 2,934 00
Reserve for Grounds Rent		2,748 75
Reserve for Deficits		
Less:	\$7,411 59	
Net Operating Loss Deduction	696 98	6,714 61
Payment to Town of Greenfield		<u>\$12,397 36</u>

Project 200-1 - Project Rents: It was noted that the admission and continued occupancy income limits and the graded income schedule for rent computation for this project were established by this Authority as follows:

<u>Rent</u>	<u>Annual Income Less than Three Minor Dependents</u>	<u>Annual Income Three or More Minor Dependents</u>
\$36 00 - Admission Income Limit	\$3,400 00	\$3,700 00
38 00 - Admission Income Limit	3,600 00	3,900 00
41 00 - Admission Income Limit	3,800 00	4,100 00
46 00 - Admission Income Limit	3,900 00	4,200 00
60 00 - Continued Occupancy Income Limit	3,900 00	4,200 00

In addition to the shelter rent, which includes water used by the tenants, each tenant is also charged \$8.75 per month for heat and hot water, which is supplied by the Authority.

Attention is called to the fact that for the first year under permanent financing a profit of \$6,261.33 was realized after taking into consideration the 2 1/2% subsidy received from the Commonwealth of \$20,050.00.

Debt Service Payments: The Greenfield Housing Authority pays into its Debt Service Fund through its fiscal agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount is being paid in ten monthly payments, 1/12 of the total to be paid on or before the fifteenth of each of the first nine months and the balance to be paid on or before the fifteenth of the tenth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$20,050.00, representing 2 1/2% of the total certified development cost. This payment was made by the Commonwealth directly to the Greenfield Housing Authority's fiscal agent.

Attention is called to the fact that the fiscal agent holds and uses these funds for approximately 85% of each year without paying or crediting interest on the balances so held.

Investments - Debt Service Trust Fund: In order to lower the net interest cost of the bond issue, this Authority has invested, with the approval of the Chairman of the State Housing Board, \$10,000.00 of its bond premium in United States Treasury Notes bearing interest at 1 3/4%. In this connection it was noted that the accrued interest and premium were charged to account for Debt Service Expense in the first fiscal year while the income received was not used to reduce this amount but was credited to the unamortized bond premium account.

Utility Charges: In connection with these charges the leases between this Authority and each tenant of the Oak Courts project includes the following:

"The charges for hot water and heat is to be adjusted periodically, either upward or downward, on the basis of actual cost."

Attention is called to the fact that the utility rates now being charged the tenants are apparently insufficient to cover this actual cost. In this connection it was noted that there was expended during the first fiscal year for utilities a total of \$10,616.51, as compared with income received \$7,560.00, or a deficiency of \$3,056.51 which represents \$3.53 per unit month.

Security Deposits: Attention is also called to the fact that the occupancy lease of each tenant includes the following with respect to security deposits:

"In addition to the first month's rent the Tenant agrees to deposit and here-with does deposit the sum of Ten (\$10.00) Dollars, the receipt whereof is hereby acknowledged by the Management, as a guarantee for the faithful performance of all the terms and conditions of the within lease.

"Should the Tenant fail at any time to perform the terms and conditions of this lease, or cause any damage to the premises through negligence or



misuse or fail to return at the termination of his tenancy any keys or other property intrusted to him by the Management, the Management shall have the right to apply the said Ten (\$10.00) Dollars on account of any such default, damage or failure without jeopardizing any other rights reserved to the Management in such case under the terms of this lease.

"At the termination of the tenancy this deposit shall be returned to the Tenant less any amount applied to the Tenant's account as heretofore set forth."

In connection with the foregoing it was noted that the Greenfield Housing Authority has refunded security deposits to two tenants who have moved from the project owing rent. The Authority is also holding a deposit made by a former tenant who vacated his apartment on June 30, 1951, and paid his obligations in their entirety. It is recommended that this Authority make the necessary adjustments in this account.

**Surplus Cash:** It was noted that the cash balances in the Administration Fund have been steadily increasing since Permanent Financing became effective due to the existence of the Operating and Debt Service Reserves. As these reserves are established to care for contingencies when they arise and should not be used in the normal course of events, it is recommended that the cash surplus be invested so that the net cost of operations will be reduced.

**Use of Rent Receipts:** It was noted that the Authority is not using its pre-numbered rent receipts in numerical sequence. It is recommended that the rent receipts be used in proper sequence.

#### DALTON HOUSING AUTHORITY

REPORT No. 52-H-53

#### Project 200-1

**Debt Service Fund:** This Authority pays into its Debt Service Fund through its Fiscal Agent each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirements. This amount is being paid in ten monthly payments, 1/12 of the total to be paid on or before the fifteenth of each of the first nine months and the balance to be paid on or before the fifteenth of the tenth month of the fiscal year.

This Authority has received, as provided in the Contract for Financial Assistance with the Commonwealth, its first subsidy payment in the amount of \$4,850.00, representing 2 1/2% of the total certified Development Cost. This payment was made by the Commonwealth directly to the Dalton Housing Authority's Fiscal Agent.

In this connection attention is called to the fact that approximately 85% of the subsidy payments which are made to the Fiscal Agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the Fiscal Agent for the use of these funds.

**Project Rents:** It was noted that the admission and continued occupancy income limits and the graded income schedule for rent computation for this project were established as follows:

<u>Less than 3 Minor Dependents</u>	<u>3 or More Minor Dependents</u>	<u>Rental Charge Per Month</u>
<u>Net Income per Year</u>	<u>Net Income Per Year</u>	
To \$3,500 00	To \$3,750 00	\$41 00
3,501 00 to \$3,900 00	3,751 00 to \$4,150 00	50 00
Over 3,901 00	Over 4,150 00 Ineligible	62 00

The rental charge includes water supplied by the Authority. Each tenant must pay for his own heat and electricity.

Apparently the rents charged are adequate to cover the operating costs, and in this respect attention is called to the fact that for the first fiscal year a profit of \$1,618.44

was realized after taking into consideration the 2 1/2% subsidy received from the Commonwealth.

**Rent Receipts:** It was noted that the receipt numbers are not entered in the cash book or the Tenants' ledger nor are they used in numerical sequence. This defeats the purpose of any pre-numbered receipt system. It is therefore recommended that these receipts be issued in numerical sequence and that their numbers be entered in the financial records in accordance with the Manual of Accounting Instructions issued by the State Housing Board.

**Matured Interest and Principal:** The financial records of the Dalton Housing Authority do not reflect the payment of interest in the amount of \$1,732.50 or the redemption of bonds in the amount of \$3,000.00, although the Fiscal Agent has advised the Authority of these transactions. It is advised that all transactions of this nature be entered promptly to properly reflect the accurate financial condition of the Authority.

**Bonds and Interest Coupons Redeemed:** Payment of bond interest coupons and bonds retired were not verified. These coupons and bonds are supposedly kept in a safe deposit box at the Pittsfield National Bank in Pittsfield and access to it requires the presence of two members of the Authority who were not available at the same time.

**Operating Improvements:** It was noted that the Authority purchased storm doors and windows for the project without obtaining competitive bids as the total cost of these items exceeded the amount that should have been purchased on the open market, bids should have been obtained in accordance with the Management Resolution.

**Commonwealth Contribution:** The Contract for Financial Assistance between the Commonwealth of Massachusetts, acting by and through the Chairman of the State Housing Board, and the Authority dated March 15, 1949 and amended on August 29, 1950 reads in part as follows:

"Whenever, in any fiscal year, the receipts of the Authority in connection with the project, including such annual contributions, exceed its expenditures for the project, including debt service, payments in lieu of taxes, administration, sums for the establishment of reserves and other costs, all as determined by the Chairman, an amount equal to such excess, as determined by the Chairman, shall be applied or set aside for application, in the manner which the Chairman may from time to time prescribe, to purposes which shall effect a reduction in the amount of subsequent annual contributions."

In this connection it was noted that this Authority on advice from the Chairman of the State Housing Board transferred the total operating profit totaling \$1,659.44 from its first year's operations to its Operating Reserve. This amount was in addition to \$1,332.50 previously transferred to this reserve account from profits during that year. It was also noted that a full 2 1/2% subsidy was recommended for the second year's operations. It would seem that instead of transferring the accumulated surplus to the Operating Reserve it should have been used to reduce the ensuing year's subsidy requirement. The present practice of placing all available funds in accounts such as the Operating Reserve is not good business or planning. These reserve accounts should be developed only on some pre-arranged basis which should be rigidly maintained.

#### Project 200-2

**Project Rents:** The admission and continued occupancy income limits and the graded income schedule for rent computation for this project were established as follows:

<u>Less than 3</u> <u>Minor Dependents</u>		<u>3 or More</u> <u>Minor Dependents</u>		<u>Rental Charge</u> <u>per Month</u>
<u>Net Income per Year</u>		<u>Net Income per Year</u>		
To	\$3,500 00	To	\$3,750 00	\$46 00
	3,501 00 to \$3,900 00		3,751 to \$4,150 00	55 00



Over \$3,900 00

Over \$4,150 00 Ineligible

\$74 00

The rental charge includes water supplied by the Authority. Each tenant must pay for his own heat and electricity.

As of the date of audit the units of this project were not occupied.

Administration Fund Agreement: As of the date of audit this Authority had not entered into an Administration Fund Agreement with any bank although an account had been opened for the deposit of the rent receipts of this project in the Pittsfield National Bank. It is recommended that this Agreement be negotiated as soon as possible.

Proration of Office Expenses: It was noted that a safe costing \$227.50 was purchased and charged to the Development Cost of Project 200-2, with the approval of the Chairman of the State Housing Board. As this item will be available for both projects, it is advised that this and all other central office expenses be prorated on some equitable basis.

## NORTHBRIDGE HOUSING AUTHORITY

REPORT No. 52-H-54

Permanent Financing: The Development Fund and the Administration Fund - Initial Operating Period - were audited from January 31, 1951 to March 31, 1951. As of April 1, 1951, the balances of both funds were transferred to the Management accounts. The cash balance in the Development Fund was \$13,632.89, and of this amount, \$11,359.24 was transferred to Debt Service Fund for the retirement of \$10,000.00 in temporary notes plus \$1,359.24 accrued interest. The accrued interest included the amount of \$1,181.94 accrued as of March 31, 1951 and the accrual to April 30, 1951 of \$177.30. The cash balance in the Development Fund was \$13,632.89 and accounted for as follows:

Cash available	\$13,632 89
Transferred to Debt Service Fund	<u>11,359 24</u>
Cash after transfer	\$2,273 65
Accounts Payable	<u>2,465 39</u>
Excess of Accounts Payable over cash	\$191 74
Transfer from Administration Fund	<u>14 44</u>
Excess of Accounts Payable	<u>\$177 30</u>

The cash balance in the Administration Fund was \$3,864.44 and was accounted for as follows:

Cash available		<u>\$3,864 44</u>
Liabilities:		
Transfer to Development Fund	\$ 14 44	
Accrued Payments in lieu of Taxes	150 00	
Operating Reserve	<u>3,700 00</u>	<u>\$3,864 44</u>

The Northbridge Housing Authority has entered into permanent financing with an issue and sale of bonds in the amount of \$200,000.00. The purchaser of these bonds was the Chase National Bank and Associates with a bid of 1 7/8% including a premium of \$2,676.74. This premium will reduce the total interest cost from \$94,818.75 to a net interest cost of \$92,142.01. This bid was the most advantageous bid of the bids seen.

Commonwealth Contribution: The Commonwealth may make an annual contribution of not more than 2 1/2% of the Development Costs. This contribution for the first year of operation under permanent financing amounted to \$5,500.00.

This contribution was paid to the Worcester County Trust Company, the fiscal agent of the Northbridge Housing Authority, on August 15, 1951.

Attention is directed to the fact that approximately 85% of the subsidy payments are held by the fiscal agent for seven months and fifteen days before any payments are made. No arrangements have been made to have interest paid, or credited, by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenant's net family income as follows:

<u>Minor Dependents</u>	<u>Rent - Income Ratio</u>	<u>Admission Limits</u>	<u>Continued Occupancy</u>	<u>Minimum Rents</u>
One or Less	18%	\$3,650 00	\$3,900 00	\$30 00
Two	16%	3,775 00	4,050 00	26 50
Three or More	14%	3,900 00	4,300 00	23 50

In addition to the shelter rent, there is an electricity charge as follows:

<u>Unit Size</u>	<u>Electricity Rate</u>
2 Bedrooms	\$6.50 per month
3 Bedrooms	7.10 per month

In connection with the foregoing utility charge, there is a yearly adjustment made in which the tenants are refunded for any overcharge, or billed for any undercharge.

Rents actually charged range from a minimum of \$34.10 to a maximum of \$61.50 with an average monthly rental charge of \$45.01. These rental figures include the electricity charges.

The first year of operations under permanent financing revealed that the rental income taking into consideration the subsidy receipts from the Commonwealth, is adequate to cover the costs of operating the project.

**Legal Services:** It was noted that the contract for legal services calls for a fee of \$800.00 to be paid the attorney. As of the date of this audit, no payments have been made towards this fee.

On March 31, 1951, at the time of closing the Development Fund books, the liability set up for legal services was only \$334.04. No satisfactory explanation was given as to the method of computing this liability.

At a later date, the attorney presented his bill for the fee of \$800.00, but the Authority voted to defer settlement of this bill until some future time, and this is the situation at present.

**Operating Reserve:** On March 31, 1951, at the time of closing the Administration Fund books, an operating reserve of \$3,700.00 was created without any apparent predetermined basis, but rather with a thought to the amount of cash available. In view of the fact that there are but twenty-two units in the project, this amount would appear to be excessive. Attention is directed to the fact that part of this available cash could have been used to reduce the permanent borrowing and correspondingly reduce the amount of the Commonwealth subsidy.

**Rent Receipts and Records:** The previous audit report commented on the fact that unnumbered receipt slips were in use, and that the tenants' accounts receivable ledger sheets were maintained in loose form. It was noted that these conditions have been corrected.

## LEOMINSTER HOUSING AUTHORITY

REPORT No. 52-H-55

**Permanent Financing:** The Development Fund and the Administration Fund - Initial Operating Period - were audited from February 28, 1951 to December 31, 1951. As of January 1, 1952, the balances of both of these funds were transferred to the Management Accounts. The cash balance of the Development Fund on this date was \$27,044.91, and was applied as follows:

Cash Available		\$27,044 91
Accounts Payable	\$13,429 34	
Contract Retentions	931 02	
Accrued Interest on Notes	28,583 33	42,943 69
Excess of Liabilities Over Cash Available		\$15,898 78
Accounts Receivable - Surplus		15,733 78
Excess of Liabilities		<u>\$165 00</u>

The cash balance in the Administration Fund on the same date was \$34,209.82 and was applied as follows:

Cash Available		\$34,209 82
Accounts Payable - Surplus	\$15,733 78	



Income Tax Withholdings	\$	122 50	
Tenants' Security Deposits		1,800 00	
Interest on Security Deposits		44 92	
Retirement Fund Withholdings		10 00	
Accrued Payments in Lieu of Taxes		900 00	
Reserve for Insurance		6,598 62	
Operating Reserve		9,000 00	\$34,209 82

This Authority entered into permanent financing with an issue and sale of bonds in the amount of \$703,000.00 as of January 1, 1952. The purchaser of these bonds was the First National Bank of Chicago, J. P. Morgan & Co., Inc. with a bid of 2 1/4%, and a premium of \$12,551.00, reducing the total interest cost to a net of \$358,091.50. This appeared to be the most advantageous bid of those seen.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the Development costs. This contribution for the first year of operation under permanent financing will be \$17,575.00.

This contribution will be paid to the National Shawmut Bank of Boston, the fiscal agent, of this Authority on or about June 15, 1952.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any payments are made from it. No arrangements have been made to have interest paid or credited by the fiscal agent for the use of these funds.

Rents: Rents for the respective units are based on the tenant's net family income, as follows:

Minor Dependents	Rent Income Ratio	Admission Limits	Continued Occupancy	Minimum Rents
One or Less	18%	\$3,650 00	\$3,900 00	\$30 00
Two	16%	3,775 00	4,025 00	26 50
Three or More*	14%	3,900 00	4,150 00	23 50

\* \$100.00 deduction from total family income for each minor dependent in excess of three.

Rents charged actually range from a minimum of \$25.00 to a maximum of \$48.00 with an average monthly rental charge of \$35.10.

It has been estimated that the income from rents will be adequate to cover the costs of operating the project, taking into consideration the contemplated subsidy receipt from the Commonwealth.

Interest - Security Deposits: It was noted that the interest earned on security deposits in the amount \$44.92 was closed out to surplus at the end of the Initial Operation Period. This amount should more appropriately have been set aside as it would not appear to be actual project income.

Change Order No. 9. The previous audit report commented on the fact that this change order, for the Strapping and Furring of ceilings at a cost of \$4,300.00, was disputed by the Leominster Housing Authority. It was noted that this item was settled for the total amount of \$2,150.00.

Operating Reserve: It was noted that an operating reserve of \$9,000.00 was established in the Initial Operating Period. This amount had no actual prearranged basis, but was obviously established by the State Housing Board simply because the funds happened to be available.

#### WALTHAM HOUSING AUTHORITY

REPORT No. 52-H-56

Temporary Construction Project - Demolition of Units: The Authority received a contractor's report on November 8, 1951 which recommended demolition of this project within one year from the date of the report. Building inspections by City officials and personal observation by the members of the Authority have confirmed the findings of the above-mentioned report. It is expected that one building will be demolished in the near future, and the others as soon as the apartments can be vacated.

Expenditures: In an examination of the expenditures, it was noted that the Authority in September 1951 purchased a three-year fire insurance policy amounting to \$40,000.00 at a cost of \$740.00. A new truck at a cost of \$600.00 plus a trade-in allowance of \$1,267.44 was also purchased in February 1952.

The above expenditures appear to be inconsistent with the plans of the Authority to demolish this project. It is recommended that only expenditures of a short term and necessary nature be made.

#### Project 200-1

Reserves: At the time of entrance into permanent financing an insurance reserve of \$10,000.00 was set up to cover the cost of fire insurance. In this connection, it was noted that the insurance was purchased at an actual cost of \$6,360.84; and, in addition, a refund of \$809.08 from insurance during temporary financing was received.

As evidenced by the above, the insurance reserve set up was \$4,448.24 in excess of the actual need. Since current operations are charged for the costs of the renewal of this insurance, it would appear that this excess might be used to reduce the amount of the Commonwealth subsidy.

Accrual of Payment in Lieu of Taxes: It was noted that Payment in Lieu of Taxes was accrued in a manner other than that prescribed by the State Housing Board. The method used was based on rentals billed minus the cost of utilities, whereas the method set forth by the State Housing Board is rent collected minus the set charge for utilities. The results obtained by the two methods of computation are as follows:

	<u>Accrued Pilot</u>
Method Used by Authority	\$3,138 86
Method Prescribed by State Housing Board	<u>3,562 89</u>
Variance	<u>\$424 03</u>

It is understood that the accountant for the Authority will correct the method used.

#### Project 200-2

Reserves: Upon entrance into permanent financing the following reserves were set up from operating profits:

Reserve for Insurance	\$ 8,400 00
Accrued Payment in Lieu of Taxes	1,300 00
Operating Reserve	<u>5,000 00</u>
	<u>\$14,700 00</u>

In connection with the above, the following observations were made.

(a) Reserve for Insurance: It appears that the amount of \$8,400.00 set up for fire insurance was excessive since the fire insurance coverage for Project 200-1, with forty-six more units, was but \$6,360.84.

(b) Operating Reserve: If this reserve had been computed on actual operations by the method adopted by the State Housing Board the amount needed at the end of the period of temporary financing would have been \$4,000.00. It appears that an excess of \$1,000.00 has been charged to development costs, thereby increasing the amount of bonds issued to finance the costs of this project.

In connection with this account, it was noted that an allowance for the installation of electrical ranges in the amount of \$4,000.00 was received after temporary financing. This resulted in an increment in the operating reserve. Since this allowance is a customary and standard procedure, it appears that a receivable for this amount should have been set up prior to permanent financing, and the amount received used to reduce the bond issue.

In general, the amount of reserves set up at the end of the period of temporary financing reduces the amount of surplus available for the reduction of the development costs. Therefore, such reserves should be kept at a minimum, in order that there be no inflation of the permanent borrowing which will correspondingly increase the Commonwealth subsidy.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. It was noted, however, that no report for the calendar year 1951 had yet been submitted.



Deposit of Funds - Project 200-1: It was noted that the cash received from tenants is held by the Executive Director for an unnecessary period of time. It is suggested that these funds be deposited daily.

Rents - Chapter 200 - Project 200-1: The rents in this project are computed as follows:

Families with one or less minor dependents	19%
Income on Admission Limits	\$3,250 00
Income on Continued Occupancy	3,750 00
Minimum Rent	31 50
Families with two minor dependents	17%
Income on Admission Limits	\$3,375 00
Income on Continued Occupancy	3,875 00
Minimum Rent	28 50
Families with three or more minor dependents	15%
Income on Admission Limits	\$3,500 00
Income on Continued Occupancy	4,000 00
Minimum Rent	25 00

The average shelter rent as of February 29, 1952 was \$40.30 per month.

It was noted that the operating budget for this project estimated the average rent at \$40.10 per month.

It is estimated that the rent charged will be adequate to cover the cost of the project. At the present time, each tenants' income is verified annually and the rent is adjusted to reflect any change in the tenants' income.

Permanent Financing - Project 200-1: The initial operating period of this project ended on December 31, 1951 with the issue of bonds under so-called permanent financing. In this connection it was noted that the bond issue at an interest rate of 2 1/4% with a premium of \$5,583.00 was in the aggregate amount of \$312,000.00, the total development cost of the project.

It was further noted that the books for the initial operating period were closed on December 31, 1951. The new accounts under permanent financing were opened as of January 1, 1952.

At the end of the initial operating period, the cash balance in the Administration Fund was represented as \$3,906.20 plus \$5.00 Petty Cash. These amounts in the total of \$3,911.20 were reserved for the following items:

Tenants' Security Deposits	\$ 250 00
Accrued Insurance	376 00
Accrued Payment in Lieu of Taxes	312 20
Operating Reserve	2,973 00
	<u>\$3,911 20</u>

It was also noted that the cash balance in the Development Fund on that date totaled \$31,507.52. These funds were to be mainly used as follows:

Contract Retentions	\$13,901 53
Accrued Interest on Temporary Notes	13,468 00
Accounts Payable	2,750 99
Unamortized Note Premium	1,287 00
Deposit on Plans	100 00
	<u>\$31,507 52</u>

This Housing Authority will receive a subsidy of 2 1/2% of the certified development costs as the first annual Commonwealth contribution. The amount involved, however, will be paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of this subsidy, paid to the Fiscal Agent, will be held for six months and fifteen days before any payments are made by him. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

Project 372 - Rents: The \$35.00 monthly rental for these apartments includes heat

and continuous hot water. It appears that the rent charge is adequate to cover the cost of operation of the project.

**Project 372 - Rent Due:** It was noted that rent amounting to a total of \$1,970.74 was due from tenants. It was further noted that several accounts have been outstanding for more than a year.

It is suggested that the Authority make every effort to collect these accounts and then write off those that are determined to be uncollectible.

**Rent Receipt Books - Chapter 200-1:** Rent receipts now being used are not numbered by the printer, hence have no value for auditing purposes. It is recommended that pre-numbered receipts be used.

**Posting of Tenants' Accounts Receivable - Chapter 372:** It is suggested that the rental postings be made before the first day of each month rather than once every few months, and that the credits should be posted promptly after their collection. Whenever a posting is made, the folio column should indicate whether it is from the rent roll or otherwise, and give the rent receipt number or some other reference. Trial balances of outstanding rents should be taken at the end of each month, and all outstanding accounts should be followed up for collection.

**Chapter 372 - Operating Budget not Submitted as Required:** Under Section 7 of Chapter 372, no expenditure is to be made by any city or town or by any housing authority board or officer acting as agent for such city or town in carrying out the provisions of Sections 4 and 6, of more than \$1,000.00 in any one year without the approval of the State Housing Board. In order to eliminate the necessity for processing individual requests for expenditures exceeding the stipulated \$1,000.00, the State Housing Board approves annual budgets for the operation of such projects. This apparently constitutes approval for making expenditures up the limit of such budgets without further formality.

Attention is called to the fact that, as of the audit date, this Authority has failed to submit an operating budget for the calendar year 1952.

**Petty Cash Fund:** A Petty Cash Fund of \$15.00 was recorded in the general ledger. In reconciling this fund, there was no cash on hand and only vouchers in the amount of \$2.75 could be found. The Executive Director stated that the rest of the money had been spent for various items for the Authority for which he forgot to make out petty cash vouchers.

It is recommended that upon the purchase of an item from this fund, a receipt be received and attached to a voucher. It is apparent that greater care should be exercised in the handling of this fund.

**Conditions of General Laws - Chapter 121:** Section 26-O of Chapter 121 of the General Laws, reads as follows:

".....No member, agent or employee of a housing authority shall, directly or indirectly, have any financial interest in any property to be included in, or any contract for property or materials to be furnished or used in connection with any project of such housing authority. Whoever violates any provisions of the preceding sentence shall be punished by a fine of not less than fifty nor more than one thousand dollars, or by imprisonment for not more than one month, or both."

In this connection, it was noted that a board member had received payment in the amount of \$211.80 for carpentry work on Project 200-1.

**Visit to Project 200-1:** A visit was made to this project during the course of the audit. During this inspection, the accountant was accompanied by a State Construction Advisor, the Executive Director and a Board member.

The following conditions were noted at this project:

Many cement platforms at both front and rear entrances were broken away from the foundation. Stair treads, rails and supports are loose due to lack of



nails. Many of the stair rails and supports were cut too short. The finish trim board around the door frames is not nailed securely. Many doors are hung improperly and cannot be closed properly. Hardwood floors are shrinking and leaving cracks because of poor flooring and workmanship. Most of the tile floors in the kitchens are cracking in many places. There is water in ten cellars, and in two of these sump pumps are operating. The inner cellar doors are not properly framed in many homes, thus letting in the cold. The oil tanks are not painted and are rusting badly. Many shingles are split.

## BROOKLINE HOUSING AUTHORITY

REPORT No. 52-H-58

Project 200-1: Project 200-1A, actually a part of Project 200-1, was completed in October 1951 and is now fully occupied.

The wooden building mentioned in our prior audit report is still occupied by two tenants, who are unable to find other living accommodations. This building is to be torn down as soon as the two tenants move.

As suggested in the previous audit report, rents are now collected in advance from the tenants of the aforementioned wooden building.

Materials and Supplies: It was recommended in the previous audit report that the Authority maintain a perpetual inventory of its tools and supplies. This recommendation has been complied with to the extent that a memorandum perpetual inventory record is maintained.

At the present time, the supplies purchased are charged directly to an expense account and deducted from the memorandum record when used. A physical inventory is taken twice a year.

Operating Reserve: At the end of the Initial Operating Period an Operating Reserve of \$41,000.00 was set up. This reserve appears to have been more than adequate for a year and a half of occupancy for one project, a year and three months occupancy for another project, and for 24 units not available for occupancy until the end of the Initial Operating Period. It appears that a good portion of this reserve could have been used to reduce actual development costs.

The Management program provides for a maximum Operating Reserve of \$87,300.00 to be accrued at the rate of \$17,460.00 annually, which amount is equal to \$60.00 per unit. On the basis of the above provision, it would appear that the maximum Operating Reserve will be reached in less than three years from the Initial Operating Period.

The following is a copy of a recent letter from the State Housing Board which seems to conflict with the Management Program:

COPYTHE COMMONWEALTH OF MASSACHUSETTS  
STATE HOUSING BOARD

Office of the Chairman

February 4, 1952

TO: All Housing Authorities  
SUBJECT: Operating Reserve - State-Aided Housing  
Projects Chapter 200

The maximum operating reserve has been established as \$300.00 per unit. It is the policy of the State Housing Board that all indicated operating profit be applied to this reserve and that the full amount of State subsidy, i. e. 2 1/2% of the development cost, be requested until this maximum operating reserve figure is achieved.

Very truly yours,

/s/ William C. Geary

WILLIAM C. GEARY, Chairman

At the present time, it appears that this Authority will have an operating profit on September 30, 1952 after providing for the necessary reserves. This Department takes the position that this surplus should be used to reduce the Commonwealth's Annual Contribution for the second fiscal year, rather than to build up the Operating Reserve at a rate greater than that provided for in the Management program.

Since the State Housing Board is an agency of the Commonwealth, it is difficult to understand its position with respect to the disposition of any operating profit. It would seem that this agency shows no interest in reducing the amount of the Commonwealth subsidy.

**Administration Fund:** On the date of audit, this Authority had \$67,360.16 in its Administration Fund account at the Bookline Trust Company. Of this amount, \$48,275.00 represented the Operating Reserve and \$4,263.89 the Debt Service Reserve.

Since it is unlikely that these reserves will be used in the near future, it is recommended that these reserves be invested, so that the Authority may derive income from these otherwise idle funds.

**Tenants' Accounts Receivable:** All outstanding active accounts appear to be collectible. Of the inactive accounts, amounting to \$205.20, \$148.20 appears to be doubtful of collection.

**Operating Expenses:** Repairs, maintenance and replacements expense for the first five months of the fiscal year have been \$11,675.40 as against a budget estimate for the entire fiscal year of \$14,020.00. A closer analysis of the detailed expense accounts revealed that the Painting and Heating System accounts on February 29, 1952 have charges far in excess of the budget estimate.

It is suggested that some consideration be given to a reappraisal of the budget in order to determine whether the budget is inadequate or the operating expenses too high.

**Permanent Financing:** The initial operating period ended September 30, 1951 with the issue of bonds ending the so-called Temporary Financing. It was noted that the bond issue at an interest rate of 2% was in the amount of \$3,346,000.00, the total development cost of the project.

It was seen that the provisions made in the audit period, to retire the bonds were in accordance with the Debt Service Schedule. The Debt Service Requirement for the first fiscal year ending September 30, 1952 is \$121,920.00 and is to be made up as follows:

Commonwealth Contribution	
(2 1/2% of the Development Cost)	\$ 83,650 00
Accrued Interest on Bonds	4,461 33
2 1/2% (1/40) of Bond Premium	1,509 63
Authority's Share	32,299 04
	<u>\$121,920 00</u>

#### WESTBOROUGH HOUSING AUTHORITY

REPORT No. 52-H-59

**Commonwealth's Contribution:** The Commonwealth may make an annual contribution of not more than 2 1/2% of the Development Cost. The contribution during the second year was \$3,800.00, the same amount as that received during the first year's operation.

This contribution was paid to the fiscal agent, the National Shawmut Bank of Boston, on March 6, 1952.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and twenty-five days before any payments are made from it. No arrangements have been made to have any interest paid or credited by the fiscal agent for the use of these funds.

#### ATHOL HOUSING AUTHORITY

REPORT No. 52-H-60

**Minutes of Meetings:** The previous audit report stated that the minutes of the Authority's meetings were not being currently maintained. The same situation prevailed in connection with this examination and it is, therefore, repeated that this important folio should at all times be kept currently entered.

**Accounts Payable Vouchers - Development Fund:** The previous audit report also



stated that in certain instances accounts payable vouchers were not available for examination. As this condition still exists, attention is again called to it.

Change Order No. 8: Attention is called to the fact that this change order, although it had been protested by the local Authority, was paid at the insistence of the State Housing Board.

#### IPSWICH HOUSING AUTHORITY

REPORT No. 52-H-61

General - Books of Account: The books of account, with the exception of the tenants' ledger are recorded quarterly by a private accountant. Upon the initiation of this audit on March 28, 1952, it was found that the records of the Southern Heights project had not been posted since December 31, 1951, and that the books of account for the County Manor project were not available. These records, which had been in the private accountant's office, were later produced by him when he called to bring the Southern Heights project records up to date.

It is suggested that all the records of the Authority be kept in the Authority's custody and that the books be kept on a current basis.

General - Tenants' Ledger: It was noted that a new account is not opened when a tenant moves into a vacated apartment. The Executive Director, who is the custodian of these records, has followed the practice of carrying the new tenants' account on the old tenant's ledger sheet.

It is recommended that an individual ledger account be kept for each tenant.

Filing: Our previous audit report commented upon the inadequacy of the filing system of this Authority. In this connection it was found that records and correspondence were piled on the filing cabinet and in desk drawers. It is again recommended that this situation be remedied.

Deposit of Rent Receipts: It was noted that the rent receipts are not deposited daily. It was further noted that these receipts were carried on the person of the Executive Director until deposited.

It is suggested that these receipts be deposited without delay.

Lost Rent Receipt Books: In the checking of used rent receipts, it was noted that a book of fifty receipts was missing.

Minute Book: It was noted that some of the minutes of the meetings, which are kept in loose leaf form, were missing. The remainder of the minutes were found either in the filing cabinet or on the desk. It is recommended that the minutes be kept in a permanent bound record.

Delinquent Accounts: An analysis of the tenants' accounts receivable revealed that some of these accounts have been outstanding for a period of one year. It is suggested that the Authority make every effort to collect these accounts and then write-off these accounts which are determined to be uncollectible.

#### WILMINGTON HOUSING AUTHORITY

REPORT No. 52-H-62

Contract Awards Account: It was noted that the account to reflect the Authority's liability on contracts awarded and the contra account Incompleted Contracts were not recorded in the books of account. As of date of audit, this liability amounted to \$53,881.72. It is recommended that these accounts be set up and that all contracts and change orders issued be properly recorded in these accounts.

Deposits on Specifications: Upon the receipt of specifications for ranges and refrigerators, prospective bidders were required to deposit with the Authority either a performance bond or a certified check in the amount of \$100.00. It was noted that seven of these checks totaling \$700.00 were on hand and attached to the various bids. It is recommended that these checks be deposited in the Authority's bank account.

Position Schedule Bond: There was no evidence on hand to indicate that the members and employees of the Authority were bonded. It was subsequently verified through the State Housing Board that this bond coverage was in effect. It is recommended that the Au-

thority obtain evidence of this coverage for its files.

Payments to Architect: No computation of the amount of the architect's fee was made because his estimate of the cost of the project, which is necessary in the computation of his fee, was not available. Therefore, it is recommended that before any additional payments are made to the architect, he submit his invoices to the State Housing Board so that his fee may be determined in order that no overpayment will result.

# CHICOPEE HOUSING AUTHORITY

REPORT No. 52-H-63

## Meadow Terrace Project

Financial Statements: The financial statements for this project cover the period from April 30, 1950 to March 31, 1952 due to the fact that the financial records of the Chicopee Housing Authority, as noted in our prior audit report, were not currently posted at the date of the last audit.

Operating Budgets: It was noted that operating budgets were not prepared for this project for the fiscal years ending December 31, 1950 and December 31, 1951. As of the date of audit, the operating budget for the current fiscal year was in the process of preparation, and it was understood that it was to be submitted for approval at an early date.

Earned Surplus: Of the total earned surplus appearing on the financial records March 31, 1952, \$3,073.09 is to be paid to the City of Chicopee in May 1952. This amount represents the excess resulting from the adjustment of the reserves to the proper amounts.

## Leo P. Senecal Apartments

Construction Contract - Change Order #9: It was noted that Change Order #9, for the unloading and distributing of refrigerators, was not formally executed. The only authorization found for this extra was a resolution adopted by the members of the Authority on December 15, 1950 authorizing payment to the contractor for unloading and distributing refrigerators. It is recommended that this Change Order be executed in the proper form and sent to the State Housing Board for approval.

Permanent Financing: The Initial Operating Period for this project ended on December 31, 1951 with the issue of bonds under permanent financing. In this connection it was noted that the issue of the bonds at an interest rate of 2 1/4% with a premium of \$39,089.00 was in the aggregate amount of \$2,184,000.00, the total development cost of the project. It was also noted that the bonds were awarded to the highest bidder of record.

At the end of the Initial Operating Period, there was a cash balance of \$131,686.46 in the Development Fund, in addition to \$33,683.47 due from the Administration Fund. This latter amount represents that portion of the surplus of the Initial Operating Period which was used to reduce the development costs. The total balance was disposed of as follows:

Sundry Accounts Payable	\$ 16,791 30
Contract Retentions	2,500 00
Accrued Interest on Third Series Notes	121,000 00
Unearned Premium on Third Series Notes	9,078 63
Reduction of Bond Issue	16,000 00
	<u>\$165,369 93</u>

Administration Fund - Temporary Financing: The surplus from operations during the Initial Operating Period totaled \$50,043.47. This amount, on instructions from the State Housing Board, was distributed as follows:

Reserve for Insurance	\$ 3,360 00
Reserve for Operations	13,000 00
Development Fund	
(to reduce development costs)	<u>33,683 47</u>
	<u>\$50,043 47</u>



**Surplus Cash:** It was noted that the cash balance in the Administration Fund appears to be in excess of normal operating needs, because of the amounts set aside for the Operating and Debt Service Reserves. Since these Reserves were established to care of contingencies when they arise, and will not be used in the normal course of operations, it is recommended that the cash surplus be invested.

**Totally Disabled Veteran Tenants:** Attention of the Chicopee Housing Authority is invited to the following excerpt from Chapter 313 of the Acts of 1951:

"In determining the rent income for the purpose of computing the rent of a totally unemployable disabled veteran, a Housing Authority is authorized to exclude amounts of disability compensation paid by the U. S. Government for disability incurred in connection with military services in excess of \$1,800.00 in any year; but such authority shall apply only to State aided projects and while such projects are receiving State financial assistance as provided in Section 26NN to 26OO."

It is recommended that the members of the Chicopee Housing Authority record in the minutes of their meetings their application of the foregoing Chapter 313 of the Acts of 1951, as it pertains to four totally disabled veterans who are at present tenants at Leo P. Senecal Apartments.

#### MALDEN HOUSING AUTHORITY

REPORT No. 52-H-64

**Rent Collections and Deposits:** It was noted that rent collections for rents paid in advance were not deposited until the rent came due on the first of the month. It was further noted that the records of the Authority did not reflect these payments. This practice should be discontinued and the rents should be recorded when received.

In attempting to reconcile receipts with deposits, it was found that a portion of the rent receipts were withheld and used as a change fund and a petty cash fund. At the suggestion of the representative of this office, the above mentioned funds were set up and the receipts of rent are now deposited when received.

**Revolving Fund:** During the course of this audit it was suggested that a Revolving Fund be set up for the payment of joint expenses chargeable to more than one project. In accordance with this recommendation advances were made from the various projects for this purpose as follows:

Project 200-1	\$ 500 00
Project 200-2	500 00
Temporary Construction Projects	300 00
Federal Project	<u>1,000 00</u>
	<u>\$2,300 00</u>

**Security Deposits:** It was noted that the security deposits received from the incoming tenants were used to reimburse the tenants vacating the apartments. It was further noted that receipts were not obtained from the tenants receiving these refunds. In order to provide more effective control over these deposits, it is recommended that all security deposits received be deposited in the bank and that refunds be made by check.

**Miscellaneous Income:** An examination of this account revealed that it had been credited with amounts that should have been applied to expense accounts. In this connection it was also found that a credit to an expense account should have been recorded in the income account. It is suggested that in the future the financial transactions be thoroughly analyzed before postings are made to the accounts.

A further check of this account revealed that an error of \$1.00 had been made in a remittance received from the laundering machine concessionaire. This matter was brought to the attention of the Executive Director, and the next remittance will be increased by \$1.00.

**Tenants' Accounts Receivable - Temporary Construction Project:** It was noted that one account showed a balance of \$35.00 for March 1948 rent. Since this former tenant cannot be located, it is suggested that this account be written off against the reserve set up for this purpose.

Books of Account - Chapter 372: In the reconciliations of the account balances, as taken off at the date of audit, a few minor errors were disclosed in the accounts of this project. From the type of errors found, it would appear that the subaccounts and control accounts are not always reconciled as they should be.

Withholding Taxes - Project 200-2: The check of the records of this project revealed a difference of \$.10 between the Development and Administration accounts. In this connection it was found that the correct amount had been paid the Government, but the clearance through the accounts mentioned had been incorrect. It is recommended that the proper adjustment be made.

Materials and Supplies: It was noted that materials and supplies which had been used were still reflected on the inventory of materials and supplies. At the present time there is no inventory recorded on the books of account, since all the items contained in the inventory had been charged to the development costs. However, it is expected that in the future a Materials and Supplies account will be set up, and the importance of keeping an accurate inventory must be emphasized at this time.

Liquidation of Development Account - Project 200-1: It was noted that as of the date of audit the Development account of this project still reflected an unexpended balance of \$819.96. Since all the anticipated liabilities set up at the time this project went into permanent financing have been liquidated, it is suggested that this account be closed and the balance transferred to the Management account.

Operating Surplus - Project 200-1: The surplus from operations in the first year under permanent financing amounted to \$21,677.55, and it is expected that the result of operations will be more favorable in the second year. The Authority should give some consideration to the disposition of this surplus. It appears that some reduction might be made in the Commonwealth's subsidy or the rents charged.

Budget Variances - Project 200-1: Schedule No. XIII, showing the differences between the approved budget for the first year of management and the actual distribution of income and expenses, sets forth a few items that appear to be very much out of proportion. The explanation of the items in point are as follows:

	Approved Budget	Actual	Difference
Management Expenses	\$5,716 00	\$3,486 87	\$2,229 13 A
Operating Services	663 00	45 00	618 00 B
Operating Improvements	758 00	-	758 00 C
Repairs, Maintenance and Replacements	7,089 00	4,352 56	2,736 44 D

- A. The reason for this variation was due to the fact that \$2,220.00 of anticipated Management Expenses was diverted to the Government Project now in the process of construction.
- B. This difference was due to there having been no charges for snow or waste removal; an amount of \$620.00 had been anticipated.
- C. The Operating Improvements anticipated were not realized in 1951.
- D. An anticipated expense of \$900.00 for painting was postponed until 1952, and an expense for heating adjustments which was assumed by the contractor accounts for the balance.

Private Accountant - Chapter 200 Projects: The accounts of these projects are maintained in detail by the Executive Director. In addition, the Authority has retained an accountant who makes monthly visits and merely posts the control accounts and prepares monthly statements therefrom. The charge for this service is \$75.00 monthly (less than one working day) and is distributed equally to the two projects.

Since the Authority is only required to submit quarterly statements to the State Housing Board, and in view of the fact that the Executive Director is keeping the records on a



current basis, it would appear that if the Authority feels that the services of this accountant are still needed, quarterly visits, with a correspondingly decrease in the charge for the service, should be sufficient.

## NEW BEDFORD HOUSING AUTHORITY

REPORT No. 52-H-65

**General - Local Fund:** This Authority received \$3,800.00 from the City of New Bedford in 1939 for preliminary expenses of the Authority. This money was an outright grant and is not subject to reimbursement.

According to the Executive Director, disbursements have been made from this fund for travel and other miscellaneous expenses over the past twelve years.

There is a separate bank account for this fund which is known as the Local Fund. As of March 31, 1952, it was understood that the balance on deposit was \$1,110.15.

This account was not examined in connection with this audit.

**Chapter 200 - State Aided Projects - Utilities:** It was noted that the actual utility costs exceeded the budget by a substantial amount for the period under audit. This excess is attributed in part to the increased cost of gas used for cooking and heating, to failure of the equipment to control heat causing excess consumption and heating labor costs, and to electrical line losses and management use which had not been charged to the tenants.

The Executive Director stated that the Authority intends back charging the tenants quarterly for electricity; yearly charges will be made for the cost of the gas used in excess of the budget.

**Subsidy - Rockdale Avenue:** A subsidy in the amount of \$24,000.00, representing 2 1/2% of adjusted development costs of \$960,000.00, was approved for the project by the Commonwealth for the year ending December 31, 1951.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent of the Authority are held by him for six months before any disbursements are made. No interest is paid or credited by the fiscal agent for the use of these funds.

**Surplus - Rockdale Avenue:** It was noted that after the receipt of the annual contribution from the Commonwealth, the profit for the year ended December 31, 1951 was in the amount of \$8,489.87. It is suggested that this surplus be used to reduce the amount of the Commonwealth subsidy in the following year.

**Operating Reserve Charges - Rockdale Avenue:** During the period under audit charges in the amount of \$2,293.89 were made against the Operating Reserve. These charges were for payment of development costs which were not anticipated when this project went into permanent financing.

As of March 31, 1952, the balance in the Operating Reserve amounted to \$12,344.24. The maximum Operating Reserve, as established by the State Housing Board, is to be \$30,000.00.

**Ineligible Tenants - Rockdale Avenue:** A review of the records of the tenants indicated that two tenants had continued to remain in this project after they had become ineligible. This ineligibility was due to the fact that their income had exceeded their continued occupancy limit.

**Charge-Off of Delinquent Tenant's Account - Rockdale Avenue:** During the period under audit a delinquent tenant's accounts receivable in the amount of \$157.61 was charged-off as uncollectible. The approval for this charge-off was checked to the minutes of the Authority.

**Permanent Financing - Dartmouth Street:** The initial operating period of this project started January 22, 1951, the date of the first tenancy, and ended on September 30, 1951 with the issue of bonds under Permanent Financing. In this connection, it was noted that bond issue at an interest rate of 2% in the aggregate amount of \$1,456,000.00, the total adjusted Development Cost of the project. The Authority also received premiums of \$26,296.82 in this issue.

In this connection it was noted that the profit from operations during the Initial Operating Period amounting to \$6,158.76, was used to reduce the amount of the development costs. It was also noted that in this same period \$19,000.00 was charged to income to provide for a so-called Operating Reserve. These entries were made at the suggestion and on the authority of the State Housing Board.

It was further noted that the cash balance in the Development account at that time was carried forward and mainly reserved for the payment of liabilities previously incurred and accrued interest on notes outstanding under Temporary Financing.

**Subsidy - Dartmouth Street:** A subsidy in the amount of \$36,400.00, representing 2 1/2% of adjusted development costs of \$1,456,000.00 was approved for this project by the Commonwealth for the year ending September 30, 1952.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent of the Authority are held by him for six months before any disbursements are made. No interest is paid or credited by the fiscal agent for the use of these funds.

**Delay in Final Acceptance of Project - Dartmouth Street:** As of March 31, 1952 this project had not been accepted. This delay in acceptance is due to a claim by the contractor for additional compensation for excavation work performed.

It was noted that the Authority has held up the final payment of \$1,000.00 to the contractor until such time as a satisfactory settlement can be agreed upon.

**Ineligible Tenants - Dartmouth Street:** A review of the records of the tenants indicated that two tenants had continued to remain in this project after they had become ineligible. This ineligibility was due to the fact that their income had exceeded their continued occupancy limit.

**Surplus - Nash Road:** It was noted that after the receipt of the annual contribution from the Commonwealth, the profit for the year ended March 31, 1952 was in the amount of \$6,909.81. It is suggested that this surplus be used to reduce the amount of the Commonwealth's subsidy in the following year.

**Operating Reserve Charges - Nash Road:** During the period under audit, charges in the amount of \$134.50 were made against the Operating Reserve. These charges were for payment of development costs which were not anticipated when this project went into permanent financing.

As of March 31, 1952 the balance in the Operating Reserve amounted to \$12,752.52. The maximum Operating Reserve, as established by the State Housing Board, is to be \$24,000.00.

#### HULL HOUSING AUTHORITY

REPORT No. 52-H-66

**Development Costs:** It was noted that this project was originally planned to cost \$328,000.00, with a unit cost of \$11,714.00. The actual final cost was \$325,000.00, resulting in a reduced unit cost of \$11,607.00.

**Permanent Financing:** The initial operating period of this project ended on March 31, 1951 with the issue of bonds under Permanent Financing. In this connection, it was noted that the bond issue, at an interest rate of 1 3/4% with a premium of \$3,954.28, was in the aggregate amount of \$325,000.00. This amount represented the total development costs less a part of the surplus earned during the initial operating period in the amount of \$3,067.55.

It was further noted that the books for the initial operating period were closed as of March 31, 1951, and new accounts under Permanent Financing were opened as of April 1, 1951.

In this connection, attention is called to the fact that at the end of the initial operating period the cash balance in the Administration Fund was represented as \$9,257.55. This amount was set aside for the following items:

Tenants' Security Deposits	\$ 280 00
Accounts Payable - Administration	3,067 55
Reserve for Insurance	2,340 00
Accrued Payment in Lieu of Taxes	170 00
Operating Reserves	3,400 00
	<u>\$9,257 55</u>

In further connection with this matter, it was noted that the cash balance in the Development Fund on that date totaled \$7,338.63, and that the total funds available were,



as follows:

Cash		\$ 7,338 63
Initial Operating Period - Surplus	\$3,067 55	
Note Interest to Maturity	267 84	
	<u>\$3,335 39</u>	
Less Working Capital	335 39	3,000 00
		<u>\$10,338 63</u>

This amount was set aside for the following items:

Accounts Payable	\$ 5,284 99
Interest on Temporary Notes	2,053 64
Reduce the Indebtedness from \$328,000.00 under Temporary Financing to \$325,000.00 under Permanent Financing	3,000 00
	<u>\$10,338 63</u>

This Housing Authority will receive a subsidy of 2 1/2% of the Certified Development costs as the first annual Commonwealth Contribution. In this connection, the Authority received \$8,125.00 on September 14, 1951. However, this amount was paid directly to the Fiscal Agent of the Authority.

Attention is called to the fact that approximately 85% of this subsidy payment which is paid to the Fiscal Agent will be held by him for six months and fifteen days before any disbursements are made. It is understood that no arrangements have been made for interest being paid or credited for the use of these funds.

At the present time the tenants pay a flat rate for gas for cooking. In this connection it was noted that for the period from July 1, 1950 to March 31, 1952 the tenants paid the Authority \$1,244.80 for this utility, but that for the same period the Authority's gas payments amounted to only \$958.06, resulting in an apparent overcharge of \$286.74. It is suggested that the Authority give some consideration to the revision of the existing rate charged to the tenants.

#### MILLBURY HOUSING AUTHORITY

REPORT No. 52-H-67

Temporary Notes Outstanding: The outstanding notes were redeemed on April 10, 1952, and replaced by a Fourth Series issue of temporary notes in the aggregate amount of \$300,000.00. The Fourth Series Notes were purchased by Phelps, Fenn and Co. and Associates. The bid submitted by them was the most advantageous bid for the Town of Millbury. This bid calls for an interest rate of 6% with a premium of \$11,618.75 reducing the rate to a net of .93%.

Accounts Receivable - Tenants: There were three delinquent accounts, totaling \$129.00, on the books of the Authority as of March 31, 1952.

#### LOWELL HOUSING AUTHORITY

REPORT No. 52-H-68

Books of Account: In the previous audit report of this department, a comment was made on the fact that the accountant for the Authority was not keeping the books of account currently posted. Since there has been no noticeable improvement in this respect, it is again necessary to make the same comment.

The following examples of the condition of the financial records were noted:

#### General:

1. Because of the failure of the accountant to reconcile the bank statement of the Pay Roll Fund as of March 31, 1952, it was impossible to reconcile the cut-off bank statement obtained by this office, and, therefore, the cash could not be verified.

2. A comment was made in the previous audit report regarding the failure of the Authority to submit monthly reports to the State Housing Board, and with further failure to submit, as required by law, an annual report to certain State and municipal officials. Because the books are not kept on a current basis, these reports have not been submitted as required.

3. The previous audit report commented upon the fact that the Administration Fund of the Federal Project, Mass. 1-1, was used as a Revolving Fund and suggested that a separate fund of this kind be established. This suggestion has not been adopted.

4. It was previously recommended that the necessary detail be entered on all the check book stubs, and that the bank balance be currently brought forward after each page of transactions. This recommendation was ignored.

5. The comment was made in the previous audit report that a check drawn on the Project 200-1 Administration check book, to reimburse the Development Fund for expenses paid by Development for Administration, was made payable to the Administration Fund in error and had not been adjusted.

In November 1951, in attempting to rectify this error, another check was drawn on the Administration Fund to reimburse the Development Fund. However, instead of charging the proper account, Accounts Payable - 200-1 Development, the charge was distributed to certain expense accounts thereby overstating them.

6. It was noted in the previous audit report that two checks in the total amount of \$5.00 and dated January 31, 1950 were found in the desk of the Authority's accountant, and it was suggested that these checks be given to the parties for whom they were intended. As of date of audit, March 31, 1952, two years and two months after the checks were made out, this transaction still has not been consummated.

7. In the previous audit report, it was noted that the petty cash funds of Mass. 1-1 the Temporary Construction Projects, and Project 200-1 were intermingled in one envelope, and it was recommended that the petty cash of each project be segregated. It was observed that no such separation of the petty cash funds has been made.

#### Temporary Construction Projects:

1. Appearing on the Temporary Construction Project books is an account labelled Accounts Payable - Administration, and the balance of this account as of date of audit was \$60.97. During the course of this audit it was found that not only is this balance in the wrong account, but also that the amount is incorrect. The correct amount is \$61.27, and the amount is a payable to Federally-owned Project Mass. 1-1.

This payable was originally entered on the books in March 1950, and the \$.30 error was made in May 1950. No attempt has been made to correct the error. There is no apparent reason why this erroneous payable should have been allowed to remain on the books for two years.

2. There is a balance in the Accounts Payable - Sundry account in the amount of \$13.35. This balance is also in the wrong account, as it is owed to Federal Project Mass. 1-1. This transaction dates back to June 1948.

3. In May 1950 \$.02 in excess of the amount due was deducted from an employee for hospital insurance, and this \$.02 balance has been carried on the books since that time as an account payable. Even though the employee no longer works for the Authority, no attempt has been made to adjust this account.

4. In December 1951 a bad check was charged by the bank against the funds of Mass. 1-1 instead of the funds of the Temporary Construction Projects. As of the date of audit, the accountant had not yet notified the bank of its error. The bank was subsequently notified after this matter was brought to the attention of the accountant of the Authority.

5. The commission received from the telephone company in the month of August 1951 for the public telephone at the Temporary Construction Projects was erroneously deposited in the bank account of Mass. 1-1. No attempt has been made to correct this mistake.

6. A tenant's security deposit was returned by the Authority even though this



tenant's account reflected a balance for unpaid rent. This balance dates back to November 1950 and should have been closed-out by applying a part of the security deposit returned to the debtor tenant.

7. It was noted in the previous audit report that a security deposit of a former tenant was on hand. No attempt has been made to dispose of this item.

Project 200-1:

1. There was a variance of \$11.00 between cash receipts and deposits for the month of October 1951. It was found that instead of charging the employee responsible, or setting the shortage up in a Cash Over and Short account, there appeared to be an attempt made to conceal the variance, since \$1.00 was carried as a deposit in transit, month after month; and the \$10.00 item was reflected as a Tenants' Accounts Receivable.

2. Checks in the amount of \$11.45, which were the general contractor's share of the telephone bills for this project, were erroneously deposited in the Mass. 1-1 account. No attempt has been made to correct this item.

3. There is an account on the records of this project labelled Accounts Receivable - Sundry in the amount of \$190.12. This supposedly reflects a receivable from the contractor for a water bill which was the contractor's liability but paid for by the Authority. There is another account called Accounts Payable - Contractor which supposedly reflects the Authority's liability for utilities paid for by the contractor. It is not readily apparent why these accounts have not been combined so as to reflect the Authority's net liability.

4. It was noted that the State Housing Board's explicit instructions were that the purchase of a tractor for \$1,323.00 should be charged to the Structures and Equipment account on the Development books. The accountant has improperly charged this item to the General Expense account on the Administration books.

5. The Authority has obtained three money bags at a deposit of \$5.00 per bag, for the purpose of making night deposits. In this connection it was noted that \$10.00 of the \$15.00 was charged to expenses, while the remaining \$5.00 was properly shown as an account receivable. The inconsistency of these entries cannot be understood.

6. It was noted that although the disbursements from petty cash are made for administrative purposes, this fund is still carried on the development books. This account should have been transferred to the administration books. Since the above also applies to the Advance to Mass. 1-1 account, which reflects the advance for Revolving Fund purposes, a like transfer should be made.

7. It was observed that the purchases and sales of investments are not being reflected in the proper manner. These transactions should be recorded in the Cash Receipts and Disbursements register.

8. It was noted that the approved change orders are not being properly recorded in the Contract Awards account or the contra account Incompleted Contracts.

9. There is an account on the development books labelled Accounts Receivable - Sundry which has a credit balance of \$74.90. The significance of this account receivable with a credit balance was not too clear. An analysis of this balance revealed that it consists of a receivable from the contractor in the amount of \$18.95 and a payable to Mass. 1-2 for \$93.85; the latter amount represents a duplicate payment made to this project from the funds of Mass. 1-2. It is suggested that the liability of \$93.85 be set up as an account payable.

10. Appearing on these books is another account labelled Accounts Payable - Development, with a debit balance of \$40.80. This amount represents overpayments to the contractor on his periodical estimates which began in December 1950. There appears to be no reason why this account is still open. It should have been closed out by applying the balance against the contract retentions withheld from the contractor.

11. Another account appearing on these records is the liability account Deduction from Employees for Blue Cross and Blue Shield. This account also has a debit balance in the amount of \$.45 because the accountant deducted less than the proper amount due from an employee. No attempt has been made to adjust this account, even though this balance has been pending since August 31, 1950 and the person concerned is no longer employed by the Authority.

12. There is an account on the books labelled Accounts Payable - Administration Fund with a credit balance of \$142.57. This amount which is actually payable to Mass. 1-1 is made up of items posted in June and July of 1951. There appears to be no valid reason why this liability has not been adjusted and liquidated.

From the foregoing it is clearly evident that there is substantial room for improvement in the keeping of the books of account and it is strongly recommended that the Authority take some action in this matter.

The financial statements shown in this report reflect all the adjustments necessary to present the true financial condition of the Authority.

Temporary Construction Projects - Payments to the City of Lowell: As noted in the previous audit report, the Authority on April 6, 1951, voted to turn over to the City the sum of \$34,370.70. This amount was made up of the Reserve for Deficits and the Surplus for the fiscal year 1950. Payment of this amount was made on June 8, 1951.

The surplus for the year 1951 in the amount of \$9,618.32 was turned over to the City on March 18, 1952.

Temporary Construction Projects - Purchase of Keys: The stated policy of the Authority is that tenants will be charged for lost keys. An examination of the purchases of keys, as compared with the income from the sale of keys, disclosed that the employees of the Authority have not complied with the policy of charging tenants for lost keys.

It is recommended that in the future all purchases and sales of keys be accounted for.

Temporary Construction Projects - Rental Charges: It is the stated policy of the Authority to require from the tenants a "Notice of Intent to Vacate" and to charge the tenant for rent to the date stated in such notice, or until a time as the keys to the apartment are turned in, at the Authority's office. An analysis of the tenants' ledger disclosed that this policy is not being carried out. The manager seems to be making adjustments which, in effect, wipe out small amounts that should be properly reflected as Tenants' Accounts Receivable.

It is understood that the manager has not been granted the authorization for the making of any such adjustments, and it is recommended that the practice be discontinued.

Project 200-1 - Vacant Apartments: In determining the potential income from this project, it was noted that two apartments were vacant, one for the months of February and March, and the other for the month of March. Further inquiry disclosed that because of a drainage condition under the building, the condensation of moisture made these apartments uninhabitable. Since a great deal of work and money will be necessary to correct this situation, it would seem that this condition should have been discovered by the architect or the engineers of the State Housing Board prior to the construction of the building on this particular location.

Project 200-1 - Excessive Number of Telephones: A visit to the project disclosed that there are two telephone lines coming into the project office. One telephone line has an extension to the maintenance office on the first floor of the building, and the other has an extension into an empty office on the second floor where the administration offices are located. The necessity of having an extension to an empty office cannot be understood.

It would appear that some system might be devised whereby only one telephone with an extension to the maintenance office would be necessary.

Project 200-1 - Purchases of Fuel Oil: The Authority has been making purchases of fuel oil for the project since January 24, 1952. In this connection it was noted that the Authority failed to advertise for bids as required by its Management Program which was adopted in June 1951 and approved by the State Housing Board in the same month. This program states:

"All purchases and contracts involving a sum in excess of \$500.00 shall



be made only after invitations for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

It is therefore recommended that the Authority follow the adopted policy so that it may be assured of receiving the most advantageous price on the purchases of fuel oil.

**General - Proration of Expenses:** An examination of the proration of expenses applicable to all projects disclosed that Federal Project Mass. 1-2 is not being charged with its share of these expenses.

It is recommended that an adjustment be made retroactive to the date on which this project should have been charged with its share of the joint expenses, and that the charges be properly allocated in the future.

**Pay Roll Fund:** It was noted that regular books of account are not kept for the Pay Roll Fund. It was further noted that the accountant has not been deducting the correct amount from employees for their hospital insurance plan, as is evidenced by the balances that have been carried forward in the deduction account after the monthly remittance to the insurance company.

It is recommended that a separate General Ledger and a Cash Receipts and Disbursements Register be maintained for this fund, and that the accountant deduct only the amount of the employees' liability to the insurance company.

#### NORTH ANDOVER HOUSING AUTHORITY

REPORT No. 52-H-69

**Rent Receipts:** It was noted that all the rent receipts are typed in advance and dated the first of the month, the day on which the rent is due. This procedure obviously makes it impossible to reconcile rent receipts with bank deposits.

This matter was discussed with the responsible party, and it is expected that in the future rent receipts will be dated as of date of collection.

**Visit to the Project:** Upon a visit to the project, it was observed that the road leading into the project was in poor condition. It was also observed that much of the landscaping was in similar condition.

In this connection, it was noted that the Authority had brought the matter of dead shrubs and maple trees to the attention of the contractor who had performed the work under a one year warranty of satisfactory performance.

It is understood that the shrubs and trees had died prior to the expiration of the warranty; therefore, it is recommended that the Authority take steps to have the contractor replace these shrubs and trees.

**Surplus:** It was noted that the surplus for the first year of operations under permanent financing amounted to \$3,645.13. It is recommended that this surplus be used to reduce the Commonwealth's subsidy in the second year.

#### ROCKPORT HOUSING AUTHORITY

REPORT No. 52-H-70

**Fidelity Position Bond:** From an examination of the insurance policies and certificates on hand, it appears that there is duplicate fidelity bond coverage on the personnel of the Authority. It is recommended that the State Housing Board "Blanket Bond" be retained and the other position bonds be canceled.

**Rent Receipts:** It was noted that the recommendation of the previous audit report regarding the issue of prenumbered rent receipts on the payment of rent had been followed.

**Operating Reserve:** An Operating Reserve of \$2,000.00 was set up at the end of the Initial Operating Period which began in September 1950 and ended on June 30, 1951. The amount set up for the nine-month period appears excessive in view of the fact that the reserve is currently being accrued at the rate of \$720.00 per year.

**Accounts Payable - Development:** On June 30, 1951, an account payable for corrective site work was set up in the amount of \$2,819.50. During the course of this examination, it was noted that although nine months had elapsed since this liability had been set up, no such amount had been expended. It would seem that this account payable was not actually a liability, but rather a reserve for contingencies.

As stated in a previous comment in this report, this Authority had already set up an

operating reserve which was more than adequate. The effect of the creation of these two reserves has been an increased development cost and a corresponding increase in the amount of the Commonwealth's subsidy.

It is recommended that in the future the State Housing Board exercise some measure of conservatism in its authorization of the setting up of liabilities and reserves by the local housing authorities on permanent financing.

**Permanent Financing:** The initial operating period of the project began September 15, 1950, the date of the first tenancy, and ended June 30, 1951 with the issue of bonds ending the so-called Temporary Financing. It was noted that the bond issue at an interest rate of 2 1/8% was in the amount of \$163,000.00, the total development cost of the project.

It was seen that the provisions were made to retire the bonds in accordance with the Debt Service Schedule. The debt service requirement for the first fiscal year ending June 30, 1952 is \$6,463.75 and is made up, as follows:

Commonwealth Contribution (2 1/2% of Development Cost)	\$4,075 00
Accrued Interest on Bonds	240 54
2 1/2% of the Bond Premium	45 19
Authority's Share	<u>2,103 02</u>
	<u>\$6,463 75</u>

## NEEDHAM HOUSING AUTHORITY

REPORT No. 52-H-71

**Dwelling Rent Schedule - High Rock Project:** It was noted that only the actual rent charged to the tenants was posted to this account. The Manual for Accounting Procedure issued by the State Housing Board states in this respect:

"The credit balance of this account represents the rental income, which would be received from dwelling units if all units available for dwelling use were occupied."

At the present time because of this non-compliance with the Manual's instructions, the Dwelling Vacancy Loss is not properly reflected. It is, therefore, recommended that all the records prescribed by the State Housing Board's Accounting Manual be maintained.

**Cash Receipts Register:** It was noted in many instances that the deposit of cash received is posted in the bank deposit column in the cash book but that the offsetting credit is not posted in its proper column. It was further noted that the cash book does not designate the source of certain receipts. It is suggested that such items be analyzed in the cash book.

**Change Fund - High Rock Project:** It is recommended that a change fund be put into operation. At the present time, the Authority employee makes change either out of her pocket or out of petty cash.

**Analysis of Expenses - Norris Village Project:** The expenses for this project, regardless of their nature, are posted to Repairs, Maintenance and Replacement account or to All Other Expenses account. It is again recommended that the Authority instruct its private accountant to post these items to the following accounts in accordance with instructions in the Manual issued by the State Housing Board:

- 4100 - Management
- 4200 - Operating Services
- 4300 - Dwelling and Commercial Utilities
- 4400 - Repairs, Maintenance and Replacements
- 4700 - General Expenses

**Development Cost Analysis - High Rock Project:** The previous audit report commented upon the fact that the books of this Authority did not reflect the analysis of Development Cost required by the Manual of Accounting Procedure issued by the State Housing Board.

As of the date of the current audit, it was again found that the records did not show



this analysis. However, it was noted that the private accountant had assembled the cost data on State Housing Board Form #70, Analysis of Development Cost, a copy of which is sent to the State Housing Board.

In order to compile all the necessary data to make a proper analysis of the Development Cost, it was necessary to go back to the inception date of the project. After compiling this data, it was found that the following cost classifications were not in agreement with the analysis prepared by the private accountant.

A charge of \$200.00 was posted to account 1430.4, Borings and Test Pits, but it should have been posted to account 1440.4, Surveys and Maps. It was also noted that account 1420.1, Interest during Development, was understated by \$369.38, and that account 1420.2, Insurance during Development, was overstated by a like amount. It was further noted that a charge of \$16,809.98 which should have been charged to account 1450, Site Improvement, had been erroneously charged to account 1460, Structures and Equipment.

It is recommended that the Authority insist that the private accountant record the required analysis of the Development Cost on the books of the Authority.

**Visit to Projects:** A visit was made to all the projects at some time during the course of the audit.

At the High Rock Project, it was observed that the majority of the buildings were in need of paint.

**Permanent Financing - High Rock Project:** Although this project is fully completed and Part I of the Certificate of Completion has been approved by the State Housing Board, it is still under Temporary Financing. It is understood that the delay in Permanent Financing is due to a suit brought by the Site Improvement contractor against the Needham Housing Authority for the following items:

Fill hauled onto project	\$31,545 55
Trench ledge	7,645 90
House Foundation ledge areas	2,437 50
Miscellaneous	5,000 00
	<u>\$46,628 95</u>

The miscellaneous charge is for trees removed after the clearing operation was completed, for extra excavation, and for disposal of ledge surplus.

#### MATTAPOISETT HOUSING AUTHORITY

REPORT No. 52-H-72

**Rent Receipts:** The information on the stubs of rent receipt books used by this Authority was found to be incomplete in many instances; therefore, these stubs were of no particular value for audit purposes.

It is recommended that the Authority obtain duplicate prenumbered receipts as advised in the instructions issued by the State Housing Board.

**Purchasing Policies:** The management program adopted by this Authority states that purchases and contracts for materials and supplies and work other than personal services involving a sum of not less than \$25.00 nor more than \$150.00, shall be made only after oral or telephone bids (confirmed in writing) have been obtained from at least three vendors or contractors.

It was noted that there were no records to indicate that this procedure had been followed.

**Budget Revision:** It was noted that the Authority had submitted a request for a revision of the operating budget for the period beginning October 1, 1951, because the payments for repairs and operating services since that time have exceeded the amounts set up in the budget.

As of the date of audit no approval had been received from the State Housing Board.

It is called to the attention of the Authority that payments in excess of the budgetary figures should not be made without the prior approval of the State Housing Board.

**Minutes:** Minutes of several meetings of the Authority could not be located.

Among the items which could not be verified because of the unavailability of the minutes were authorizations for the following:

Raise in the salary of the Executive Director from \$275.00 to \$360.00 a year.

Change in the rental charge of a tenant.

Payment of various bills.

Payment of compensation to members of the Authority.

It is obvious that greater care should be exercised in the keeping of these records.

**Insurance:** It was noted that a payment of \$20.00 had been made during the period under audit for Non-Ownership Automobile Liability insurance.

In this connection it was found that, because of a misunderstanding as to the nature of this insurance, this payment had been made for the personal automobile insurance of the Executive Director.

It is understood that this payment will be refunded and the proper insurance taken out as soon as possible.

**Subsidies:** Two subsidies in the amount of \$3,000.00 each, each subsidy representing  $2\frac{1}{2}\%$  of the adjusted development costs of \$120,000.00, were approved for the Mata-poissett Housing Authority by the State Housing Board for the two fiscal years ending September 30, 1951 and September 30, 1952 respectively.

Attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months before any disbursements are made. No interest is paid or credited by the fiscal agent for the use of these funds.

**Surplus:** The operations for the fiscal year ending September 30, 1951 resulted in a surplus of \$616.86 after the receipt of the annual contribution from the Commonwealth.

This surplus was transferred to the Operating Reserve with the knowledge and advice of the State Housing Board.

It is suggested that any future surpluses be used to reduce the amount of the Commonwealth subsidy.

#### BELMONT HOUSING AUTHORITY

REPORT No. 52-H-73

**Purchase Discounts:** An examination of vendors' invoices revealed that the Authority has been lax in taking advantage of possible discounts. In this connection it was noted that one invoice in the amount of \$990.00, dated August 3, 1951, with a discount of 1% if payment was made in ten days had been paid in full on September 4, 1951.

Since it is a fairly common practice to receive cash discounts on purchases, it is suggested that the Authority make every effort to expedite payment of invoices within the discount period.

**Prepaid Insurance:** It was noted that as of audit date the full amount of the insurance purchased in May 1950 was reflected on the books of the Authority. It was necessary to make an adjustment for the expired insurance in order that the schedules shown in this report would reflect the true financial position of the Authority.

**Accrued Payment in Lieu of Taxes:** It was found that no accrual for this expense had been made during the audit period. It is recommended that this accrual be made periodically.

**Payments by Development Fund for Administration:** It was noted that payments in the amount of \$936.30 had been made from the Development Fund for the Administration Account, but had not been recorded on the books of the Authority. It is recommended that the appropriate entries be made to reflect the above transactions.

**Permanent Financing:** This Authority has taken over certain land by exercising the right of eminent domain, but as yet the price has not been finally established. Because of this taking, Project 200-1 has not yet entered permanent financing, and the matter is presently the subject of litigation. The latest reports from the attorney representing the Authority indicate that this matter is scheduled for court review in the near future.

**Heating Contract:** From the time of the initial occupancy of this project, the heating system has not functioned properly. The Authority has been unable to obtain satisfactory remedies from the contractor and has therefore brought suit against him. As yet, a settlement has not been reached.



**Contracts Awarded:** It was noted that a contract in relation to the construction of a storm sewer and amounting to \$1,737.00 had been awarded without securing competitive bids. The reasons given for the failure to secure bids were as follows:

The contractor who was awarded the contract was engaged in similar construction in the vicinity of the project. It was also stated that the price set by the contract was considered to be very low and thus favorable to the best interests of the Authority.

#### WEBSTER HOUSING AUTHORITY

REPORT No. 52-H-74

**Permanent Financing:** The final development cost of this project, as determined by the State Housing Board, amounted to \$314,000.00. Bonds in this amount, at an interest rate of 2 1/4% and maturing serially for forty years, were issued by the Authority as of January 1, 1952.

The Commonwealth may make an annual contribution of not more than 2 1/2% of the development cost of the project. It is expected that the full amount of the subsidy, amounting to \$7,850.00 will be paid to the fiscal agent of the Authority in the first year of operation under permanent financing. In this connection, attention is called to the fact that approximately 85% of the subsidy payments which are paid to the fiscal agent are held by him for six months and fifteen days before any disbursements are made. No arrangements have been made to have interest paid or credited to the Authority by the fiscal agent for the use of these funds.

The Development Account and the Administration Account were audited for the period March 1, 1951 to December 31, 1951. On January 1, 1952, the balances of both accounts were transferred to the Management Account.

**Materials Stored:** The records of the Authority show a debit balance of \$270.01 in this account as of March 31, 1952. However; no materials were found to substantiate this figure. The Executive Director stated that this amount represents an account receivable for an overpayment to the contractor.

**Change Orders:** It was noted that change order #5 which had been approved in the amount of \$658.00 was recorded in the books as \$681.34. It is suggested that the necessary bookkeeping entries be made to adjust the accounts involved.

**Surplus and Working Capital:** The surplus of the initial operating period and the working capital were found to be overstated in the amount of \$584.33.

This figure represents December 1951 expenses which should have been charged to the initial operating period, but had been charged instead in January 1952, the first month under permanent financing.

The schedules in this report show the corrected figures.

**Operating Reserve:** At the end of the initial operating period, an operating reserve of \$4,000.00 was set up on the books of the Authority. It appears that this amount was not arrived at on a predetermined basis, but rather with a view to the available free cash. This is evidenced by the disposition of the Administration Fund as follows:

<b>Funds Available:</b>		
Cash	\$5,322 68	
Tenants' Accounts Receivable	315 51	
<b>Total Funds Available</b>		<u>\$5,638 19</u>
<b>Disposition:</b>		
Accounts Payable	\$ 369 19	
Tenants' Security Deposits	307 00	
Accrued Insurance	472 00	
Payment in Lieu of Taxes	490 00	
Operating Reserve	<u>4,000 00</u>	
<b>Total Disposition</b>		<u>\$5,638 19</u>

Since a portion of the funds used to set up this operating reserve could have been used to reduce the development costs and correspondingly reduce the Commonwealth's subsidy, it would appear that some consideration should have been given to this fact before loosely setting up arbitrary reserves.

## NAHANT HOUSING AUTHORITY

REPORT No. 52-H-75

**Minute Book:** It was noted that there was no record of several of the Authority's meetings in the minute book. It is advised that all such meetings be properly recorded.

**Outstanding Check:** The reconciliation of the bank account revealed that one check had been outstanding since June 7, 1951. It is suggested that payment be stopped on this check.

**Deposits of Rent Receipts:** It was noted that on occasion rent receipts were held for two months prior to deposit. There appears to be no valid reason for such a lapse of time between the receipt and deposit of the rent collections.

It is suggested that the Authority deposit the rent receipts as promptly as circumstances permit.

## FRANKLIN HOUSING AUTHORITY

REPORT No. 52-H-76

**Investment of Reserves:** The Operating Reserve and the Debt Service Reserve amounted to approximately \$7,400.00 on the date of audit. Since it appears that there will be no substantial expenditures from these funds in the immediate future, it is recommended that the Authority invest the greater part of these funds in United States Treasury Notes.

**Surplus - First Fiscal Year:** The surplus for the fiscal year ending December 31, 1951 amounted to \$2,628.45. Of this amount, \$1,683.45 was applied to the Operating Reserve, and the balance of \$945.00 to the reduction of the annual subsidy from the Commonwealth.

Since adequate reserves have already been provided, it would seem that the total surplus should have been used to reduce the subsidy.

**Bond Redemption:** It was noted that provisions were made to retire the bonds in accordance with the Debt Service Schedule. The debt service requirement for the second fiscal year ending December 31, 1952 is \$9,812.50, and it is to be made up, as follows:

Commonwealth Contribution	\$6,055 00
Surplus Reserved for Reduction of Commonwealth Contribution	945 00
2 1/2% of Bond Premium	108 70
Investment Profit	53 65
Authority's Share - Current Year	2,650 15
	<u>\$9,812 50</u>

## GARDNER HOUSING AUTHORITY

REPORT No. 52-H-77

**Accounting Records:- Temporary Construction Projects:** Certain schedules ordinarily assembled in connection with this audit were not prepared at this time, because the accounting records are not being maintained currently. Attention is directed to the fact that this condition also existed at the time of the previous audit.

**Permanent Financing - Forest Street Project:** The initial operating period of this project ended on December 31, 1951 with the issue of bonds which terminated the so-called Temporary Financing. It was noted that the bond issue, at an interest rate of 2 1/4%, was in the amount of \$514,000.00, the total adjusted development cost of the project. It was further noted that a premium of \$9,232.00 was received on the bond issue.

It is estimated that the contribution from the Commonwealth for the first year under permanent financing will be \$12,850.00. This amount, which represents 2 1/2% of the cost of the project, is the maximum contribution allowed under the statute.

This contribution will be paid to the Second National Bank of Boston, the fiscal agent of the Gardner Housing Authority, on or about June 15, 1952. Attention is called to the fact that approximately 85% of the subsidy payments paid to the fiscal agent will be held for six months and fifteen days before any disbursements must be made from these funds. No arrangements have been made to have interest paid, or credited, by the fiscal agent for the use of these funds.

**Operating Reserve - Forest Street Project:** It was noted that at the close of the



initial operating period an operating reserve of \$6,000.00 had been created. It appears that the amount reserved had not been determined on the basis of actual need, but rather on the basis of the availability of cash at the close of the initial operating period as demonstrated, as follows:

**Funds Available:**

Cash	\$8,120 31	
Accounts Receivable	10 00	<u>\$8,130 31</u>

**Disposition of Available Funds:**

Security Deposits	\$ 410 00	
Prepaid Rent	325 54	
Accounts Payable	486 77	
Income Tax Withholdings	58 00	
Accrued Insurance	445 00	
Accrued Payment in Lieu of Taxes	405 00	
Operating Reserve	6,000 00	<u>\$8,130 31</u>

It appears that a portion of the amount set aside for the operating reserve could have been used to reduce the development cost and correspondingly reduce the amount of the Commonwealth's subsidy payments.

General

**Comments in Prior Audit Report:**

(a) Financial Reports - Form #70: The previous audit report commented upon the fact that certain monthly financial reports were not on file in the Executive Director's office. During the current audit it was again found that these reports were not being filed in the office.

(b) Architectural Services: The previous audit report suggested that the architect submit attested information concerning the extra work done by him, since it had been found that the payments to him had been in excess of the fee stipulated in the contract. In this connection it was noted that a breakdown of all the payments made to him and a listing of the extra work performed by him had been submitted by the architect.

Accounts Receivable - Tenants: In response to one of the verification notices sent out on the delinquent accounts, a reply was received in which the individual questioned the amount owed by him as reflected on the books of the Authority.

Upon further examination it was found that the question concerning this amount had arisen because of the practice of the Chairman of the Authority, who is an attorney, in accepting periodic payments from delinquent tenants and not transmitting such payments to the Executive Director to be recorded in the records. It was noted that in the case of this particular account the Chairman had received periodic payments from this tenant, and as of June 2, 1952 he was holding collections in the amount of \$173.00 which should have been applied to this account.

It is recommended that the Chairman of the Authority turn in any collections on account of delinquent tenants to the bookkeeping office as soon as possible after their receipt. There appears to be no valid reason for withholding receipts for the period indicated by this particular case.

**PLYMOUTH HOUSING AUTHORITY**

REPORT No. 52-H-78

**Comments in Prior Audit Report - Payments to General Contractor:** The previous audit report commented upon an overpayment of \$500.00 to the general contractor and recommended that this overpayment be deducted from the Contract Retentions account. It was noted that as of date of audit no action had been taken by the Authority to correct this error.

It is again recommended that the Authority take steps to correct this overpayment.

**Contract for Architectural Services:** The previous audit report stated that an overpayment of \$8,754.03 had been made to the architect, and it recommended that the State Housing Board recompute the fee and take steps to recover the excess payment.

This matter was discussed with the Chairman of the Authority who stated that he had contacted the State Housing Board, but, as yet he has had no reply from this agency.

It is again recommended that the State Housing Board take immediate action to recover this overpayment.

**General Contract:** It was noted that certain nursery work which should have been done under the terms of general contract had been performed by a third party under a separate contract. The amount paid by the Authority on this contract, which has not yet been submitted to the State Housing Board for approval, amounted to \$700.00 and should have been charged to the account of the general contractor.

It was noted, however, that this amount had been charged to Accounts Payable - Development instead of the Contract Retentions account.

It is recommended that this contract be submitted to the State Housing Board for approval, and that the proper bookkeeping entries be made to reflect the charge against the general contractor.

**Contract Retentions:** On date of audit the balance of this account amounted to \$5,854.66, but the proposed adjustments mentioned elsewhere in this report would reduce this balance to \$4,654.66.

At the present time there is a suit pending against the Authority in the amount of \$5,300.52. This suit was initiated by the general contractor for the payment of the electrical work done by him and for which he was not paid. It is understood that this suit is the result of the action of the State Housing Board in refusing to authorize this payment, since the underground wire installed did not comply with their regulations.

Should the plaintiff contractor be successful in his suit, the result will be a deficiency of \$645.86 in this account.

**Surplus Funds:** It would appear that the balance of \$11,979.21 in the Management Fund account is in excess of current needs. It is suggested that the excess be invested in U. S. Treasury Bills.

**Compensation of Members:** It was noted that the members of the Authority received compensation of \$200.00, or \$40.00 each, for the period July, 1950 through December, 1951. State Housing Board approval for this compensation was asked subsequent to the payment by the Authority, but the requested approval was not granted by the State Housing Board. The State Housing Board subsequently approved total compensation of only \$173.00. This matter was discussed with the Chairman of the Authority, and it is understood that the excess compensation will be adjusted at the time of the next payment for compensation.

It is suggested that in the future the Authority receive the approval of the State Housing Board prior to making any such payment.

#### MANSFIELD HOUSING AUTHORITY

REPORT No. 52-H-79

**Change Orders:** It was noted that Change Order No. 1 in the amount of \$3,838.20 had been entered on the books of the Authority. No approval by the State Housing Board of this change order could be found.

**Minutes of Meetings:** There were very few formal minutes of the meetings signed by the Secretary of the Authority. In the majority of instances only rough notes of the meetings were on hand, and no minutes for meetings after December 17, 1951 were available.

**Management Program:** Although the rough notes of the minutes indicate that the management program had been adopted on December 17, 1951, there was no evidence that the adopted management program had been returned to the State Housing Board for approval.

#### HOLYOKE HOUSING AUTHORITY

REPORT No. 52-H-80

**Federal Projects:** The financial records of the Federal Projects Mass. 5-1 and Mass. 5-2 were not examined. Although the Authority has financed these projects through its own bonds, it receives a subsidy from the Federal Government under Public Laws 671 and 412. Because of this subsidy, these projects are subject to regular audit by the Federal auditors.

**Chapter 372 - Subsidy:** As provided in Chapter 372 of the Acts of 1946, as amended the City of Holyoke is to receive a total of 10% of the actual development cost of the local project, payable at the rate of 2% per annum for a period of five years. To the date of audit the City of Holyoke has received from the Commonwealth a total of \$44,047.36. This



amount represents four payments of \$11,011.84 each. These payments were based on the total actual development cost of \$550,591.81 which had been previously approved by the State Housing Board.

**Permanent Financing - Project 200-1:** The Holyoke Housing Authority on January 1, 1952 transferred from temporary financing to permanent financing with the issuance of bonds in the amount of \$1,922,000.00. These bonds bear interest at the rate of 2 1/4% per year. A premium of \$34,329.00 was also paid to the Authority.

The total development cost of this project, as of December 31, 1951, was \$1,943,135.07. This amount was reduced by applying a portion of the income earned during the initial operating period in the amount of \$21,135.07. The net income earned during the initial operating period amounted to \$57,937.71 and was distributed to Management accounts, as follows:

Reserve for Insurance	\$13,502 64
Reserve for Operations	19,000 00
Reserve for Payment in Lieu of Taxes	4,300 00
Reduction of Development Costs	21,135 07
	<u>\$57,937 71</u>

**Debt Service Payments:** The Holyoke Housing Authority pays into its Debt Service Fund each year from rental income an amount which together with amounts received from other sources will equal that fiscal year's total debt requirement. This amount is to be paid in ten monthly payments; one twelfth of the total to be paid on or before the fifteenth day of each of the first nine months, and the balance to be paid on or before the fifteenth day of the tenth month of the fiscal year.

**Revolving Fund:** It was noted that the Federal Project 5-2 is now used as a revolving fund for the payment of joint expenses of all projects. Funds are advanced to Project 5-2 from all projects for this purpose. It is recommended that a separate revolving fund be set up for all the projects and that advance payments to the revolving fund be made on the basis of the expected expenditures of each project.

**Surplus Cash:** It was noted that the cash balance in the Administration Fund has been steadily increasing since permanent financing became effective because of the provisions made for the operating and debt service reserves. Since these reserves were established to care of contingencies when they arise and should not be used in the normal course of events, it is recommended that the cash surplus be invested. The cost of operations will thus be reduced by the income received on such investments.

**Refund of Expenditure - Initial Operating Period:** The Holyoke Housing Authority received a refund of \$2,639.72 for fuel paid for in the initial operating period. This refund was received after the initial operating period books had been closed, and therefore, could not be used as a reduction of the bond issue. The State Housing Board has recommended that this amount be set up in the operating reserve. However, the Authority has set this amount up in surplus. It is recommended that the amount be retained in the surplus account and be used to reduce the subsidy payment of the Commonwealth.

#### NEWBURYPORT HOUSING AUTHORITY

REPORT No. 52-H-81

**Annual Report:** Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to certain State and municipal officials. It was noted, however, that no such report for the calendar year 1951 had been made.

**Tools and Equipment:** It is recommended that stock ledger cards be maintained for maintenance tools and equipment. All items lost or broken should be identified and reported to the office, so that the stock ledger cards will always indicate the true balance.

**Dwelling Rent Schedule:** It was noted that only the actual rent and utilities charged to the tenants were posted to this account. The Manual for Accounting Procedure issued by the State Housing Board states in this respect:

"The credit balance of this account represents the rental income, including utilities, which would be received from

dwelling units if all units available for dwelling use are occupied."

At the present time because of this non-compliance with the Manual's instructions the Dwelling Vacancy Loss is not properly reflected. It is therefore recommended that all records be maintained as prescribed by the State Housing Board's Accounting Manual.

Change Fund: It is recommended that a change fund be set up. At the present time the Executive Director makes change out of his own pocket.

Cash Receipts Register: It was noted that occasionally deposits of cash received are posted only in the bank deposit column of the cash book. The credit postings should also be entered in the Tenants' Accounts Receivable account, the Tenants' Security Deposit account, or whatever other account is applicable.

Bid Deposits: It was noted that the Authority still has the successful contractor's deposit of \$50.00. It is suggested that the Authority use this deposit to reduce the development costs.

Minutes of the Authority's Meetings: It was noted that considerable material which should have been incorporated in the minutes was omitted. It was also noted that the minutes were kept in a folder in the office cabinet file. It is suggested that greater care be exercised in the keeping of the records of the Authority's meetings and that they be kept in a permanent record.

Inspection of the Project: It was noted while making a routine visit to this project that there were two broken handrails on Buildings #1 and #10, and that there were a few loose asphalt roof shingles on Buildings #5 and #10. It was also noted that the exterior paint was blistering and peeling.

Tenants' Security Deposits: Attention is called to the fact that all but one tenant had been required to make a security deposit of \$15.00.

Since the purpose of these deposits is to insure the Authority against possible loss, it is suggested that steps be taken to collect this one deposit.

Purchase of Tools and Equipment: Attention is called to the fact that this Authority has not adhered in every instance to the purchasing policies of their Management program. In this respect this program states:

"All purchases and contracts involving a sum in excess of \$150.00 shall be made only after invitation for bids have been publicly advertised or have been mailed to not less than three qualified vendors or contractors."

In the course of this examination it was found that tools and equipment in the amount of \$264.96 had been purchased without obtaining bid proposals.

In this connection it was noted that this purchase had been made by the former Executive Director without the proper authorization. The payment to the vendor was subsequently held up until the members of the Authority voted to pay this bill.

It is suggested that in the future the Authority adhere to the purchasing policy of the Management program.

Utility Charges: It was noted in the Authority's Minutes of their January 9, 1951 meeting that:

"It was unanimously voted by members of the Board that each tenant pay the amount of electricity used by him at the rate of 3¢ a kilowatt hour, to take effect February 1, 1951."

It was further noted in this connection that the tenants also pay an additional 45¢ a month for 15 kilowatt hours of electricity not used by them. The explanation given for this charge is that this is used to defray the cost of the street lights. It is suggested that a vote for this additional charge be recorded in the minutes of the meetings.

Payments to Contractor: An examination of the amounts paid to the general con-



tractor revealed that there is some question concerning the balance due to this contractor. It appears that this situation came about because of payments by the Authority of sums other than those which appear on the periodical estimates.

At the present time the Authority is withholding from this contractor, as a contract retention, the amount of \$1,520.53. It is suggested that steps be taken to effect a mutual agreement of the remaining balance prior to the final acceptance of the project.

## WATERTOWN HOUSING AUTHORITY

REPORT No. 52-H-82

**Rent Receipts:** The previous audit reports commented on the fact that the rent receipts used by this Authority were not prenumbered. In this connection it was noted that the rent receipts now used are prenumbered.

In checking the rents received to the cash books, it was found that the rent receipts are issued in numerical sequence with no distinction between projects. It is suggested that numerical sequences of receipts be allocated to each project. This allocation would provide a control over the receipts of each project and facilitate the checking of rental income.

In the check of the rent receipts, it was also noted that in several instances the funds collected were held several days before they were deposited. All collections should be deposited as soon as possible.

**Tenants' Security Deposits:** The Watertown Housing Authority does not require the tenants to make security deposits. In view of the current condition of delinquent rents and probable collection loss resulting therefrom, it would appear that security deposits should be required in order to minimize any such possible loss.

**Rent Collections:** It was noted that as of audit date the Tenants' Accounts Receivable for both occupied projects amounted to \$1,957.10. In this connection it was found that approximately 15% of the April rents of Project 200-1 had not been paid. It would appear that some effort should be made to combat the delinquency in the payment of rents.

It was further noted that several of the accounts receivable were due from tenants no longer living in the project, and there appeared to be little hope of collection on these accounts. It is suggested that the accounts which have been determined to be uncollectible be written off against the reserve set up for this purpose.

**Ineligible Tenants - Project 200-1:** A review of the tenants' records revealed that a number of tenants were not qualified to continue to occupy their respective units. This ineligibility was due to the fact that their incomes were in excess of the maximum income for continued occupancy set up for this project.

**Rent Roll:** An examination of the rent roll revealed that when a tenant occupied a unit subsequent to the first of the month the procedure followed was to record the full month's rent as income, and make the income adjustment in the following month's rent schedule. This procedure is obviously improper; it is recommended that the monthly rent roll reflect only the rent charges due for that particular month.

**Accounts Receivable - Contractor - Project 200-1:** The balance sheet of the Administration Account reflects an Account Receivable - Contractor in the amount of \$8,569.51. This receivable is the result of charges to the contractor's account for work performed by the employees of the Authority. When questioned as to why no payments had been made by the contractor, the Executive Director stated that settlement of this account would be made when a pending change order of approximately 17,500.00 is approved.

In connection with this matter, it was further noted that the amount retained from the payments to this contractor is only \$2,600.00. It would appear that if the improvements made by the employees of the Authority were of an apparent nature, a greater amount should have been withheld from the contractor.

**Development Costs:** It was noted that the development costs of both projects were understated because of the incorrect method of handling the premiums received on the note issues. The total premiums in both instances had been credited to Interest in Development; the correct procedure would have been to amortize the premium over the life of the notes.

The understatements of project costs were, as follows:

Project 200-1  
Project 200-2

\$40,901 08  
23,767 39

Blueprint Deposit - Project 200-2: The balance sheet of this project reflects an amount of \$50.00 for Deposits during Development. In this connection it was found that one of the bidders on this project had retained the blueprints and forfeited his deposit. It is suggested that this account be closed out and that the \$50.00 be credited to the cost of the blueprints.

Contract Award - Project 200-1: An examination of the bids and awards in connection with the various contracts disclosed that the contract award for approximately 128,000 gallons of #6 fuel oil was not made to the lowest bidder. The bids received were as follows:

<u>Bidders</u>	<u>Amount per Barrel</u>
1	\$2 70
2	2 72
3	2 41
4	2 70

Although bidder #3 was the low bidder, the award for the fuel oil contract was made to bidder #1. If the amount to be purchased equals the quantity estimated in the bid proposal, the unnecessary cost to the Authority will be \$825.00.

It was further noted that there was no evidence to indicate that this contract has been submitted to the State Housing Board for the required approval.

Incorrect Charges - Project 200-1: An examination of the disbursements revealed that the following incorrect charges had been made:

1. Storm Windows charged to General  
Expense - Administration \$919 80
2. Storm Windows charged to Repairs,  
Maintenance and Replacements -  
Administration 900 00

In connection with the above it was found that this Authority had requested approval for the purchase of storm windows from the State Housing Board, but that the request of the Authority had been refused. It would appear that the method employed by the Authority in the handling of the above expenditure was an attempt to conceal the unauthorized expenditure.

Delay in Completion of Project 200-2: This project was originally scheduled for occupancy by June 1, 1952. It is now estimated that it will not be ready for occupancy until October 1952. The reasons advanced for the cause of the delay were, as follows:

1. Water was discovered seeping through the brick walls, and additional time was required to do the necessary waterproofing.
2. There had been differences of opinion between the general contractor and a subcontractor over some of the specifications.

#### NORWOOD HOUSING AUTHORITY

REPORT No. 52-H-83

Architect's Fee: It was noted that the architect's fee, which includes extras, had been approved by the State Housing Board in the amount of \$23,601.82. However, the architect had computed his fee to be \$32,508.56, and to date of audit he had received \$26,802.60, an amount \$3,200.78 in excess of the approved fee. It is recommended that steps be taken to collect this apparent overpayment.

In addition to the overpayment, \$5,705.56 was set up on March 31, 1952 as an account payable to the architect. As noted above, there seems to be no justification for this liability; it appears that the net development cost and the subsequent bond issue could have been reduced by approximately \$5,000.00.

Grant from the Town of Norwood: As recommended in the previous audit report, the receipt of cash from the Town of Norwood and the disbursements therefrom have been reflected on the books of the Authority.



**Permanent Financing:** The initial operating period of the project began October 2, 1950, the date of the first tenancy, and ended on March 31, 1952 with the issue of bonds which ended the so-called temporary financing. It was noted that the bond issue, at an interest rate of 2 1/8% was in the amount of \$800,000.00, the net development cost of the project.

It was seen that the provisions made to retire the bonds were in accordance with the Debt Service Schedule. The debt service requirement for the first fiscal year ending March 31, 1953 is \$30,000.00 and is to be made up, as follows:

Commonwealth Contribution	
(2 1/2% of Development Cost)	\$20,000 00
Accrued Interest on Bonds	1,086 11
2 1/2% of Bond Premium	63 00
Authority's Share	8,850 89
	<u>\$30,000 00</u>

## BARNSTABLE HOUSING AUTHORITY

REPORT No. 52-H-84

**Temporary Construction Projects - Surplus:** It was noted that the balance in the surplus account as of December 31, 1951 totaled \$2,811.62, and that on April 30, 1952 this balance had increased to \$3,852.84.

It was further noted that payments in the amount of \$3,176.86 had been made to the Town of Barnstable from this surplus during the period covered by this audit.

**Temporary Construction Projects - Sale of Buildings:** During the period under audit buildings and equipment were sold under competitive bidding for \$1,981.86. The expenses of the sale and the repairs to the remaining buildings amounted to \$1,305.01. The remaining balance of \$676.85 was transferred to the surplus account.

**Temporary Construction Projects - Payment to the Town of Barnstable:** In an examination of the payments made to the Town of Barnstable, it was noted that a payment in the amount of \$160.00 had not been recorded on the Town's books. It was subsequently found that this payment had been endorsed over by the Town Treasurer to an Authority member for services performed in connection with the sale of buildings by the Authority.

It would appear that the method employed in making this payment was an attempt to circumvent the provisions of Section 26-O of Chapter 121 of the General Laws, which reads in part, as follows:

"A housing authority may compensate its members for each day spent in the performance of his duties and for such other services as he may render to the authority. Such compensation shall not exceed twenty-five dollars a day for the chairman and twenty dollars a day for a member other than the chairman, provided that the total sum paid to all the members in any one month or year shall not exceed one per centum of the gross income of the housing authority during such month or year respectively,...."

The amount received by the Authority member was greatly in excess of the one per centum of the gross income limitation imposed by law.

**Temporary Construction Projects - Accounting Procedures:** In an examination of the accounts of this project, it was noted that the accounting procedures set up in the manual of instructions by the State Housing Board were not being adhered to.

**Temporary Construction Projects - Security Deposits:** It was noted that \$30.00 of the balance of the Security deposits represented deposits of persons who are no longer tenants of the project.

It is suggested that some disposition be made of these particular deposits. The deposits should either be applied against any unpaid balances of the tenants who originally made the deposits, or if there are no unpaid balances, the deposits should be refunded.

**Temporary Construction Projects - Charge-off of Accounts Receivable:** During the period under audit an accounts receivable in the amount of \$466.04, which was due from the Public Housing Administration, was charged-off as uncollectible. An examination of the minutes of the meetings of the Authority failed to indicate any authorization for this

charge-off, and it is recommended that future adjustment of this nature should be made only after proper authorization by the Authority as recorded in the minutes of its meetings.

**Project 200-1 - Permanent Financing:** The initial operating period of this project started January 1, 1951, the date of the first tenancy, and ended on December 31, 1951, with the issue of bonds under permanent financing. In this connection it was noted that the bond issue, at an interest rate of 2 1/4%, was in the aggregate amount of \$372,000.00 the total adjusted development cost of the project. A premium in the amount of \$6,632.00 was also received by the Authority.

In this connection it was noted that the profit from operations during the initial operating period, \$8,126.44, was used to reduce the amount necessary under the bond issue, and \$3,900.00 was used to provide for an operating reserve. These entries were made in accordance with instructions received from the State Housing Board.

It was further noted that the cash balance in the Development account at that time was carried forward and was mainly reserved for the payment of invoices previously incurred and accrued interest on notes outstanding under temporary financing.

**Project 200-1 - Change Orders:** Attention is called to the fact that the change orders bearing the required signature of the Chairman of the State Housing Board could not be located in the office of this Authority. The Authority should obtain approved copies of these change orders for its files.

**Project 200-1 - Tenants' Ledger:** Due to the fact that the Tenants' Accounts Receivable ledger had not been posted up to the date of audit, a trial balance of this ledger could not be taken. It is recommended that this ledger be posted currently and periodically reconciled with the Tenants' Accounts Receivable control account.

**Project 200-1 - Collections:** An examination of the rent collections disclosed that the total amount of the used rent receipts for the period January 1, 1952 to April 30, 1952 did not reconcile with rent receipts recorded in the cash book. In connection with this matter it was noted that the books of account reflect an overage of \$4.40 as of April 30, 1952.

**Project 200-1 - Bid Deposit Check:** It was noted that a check in the amount of \$14.99 which had been received as a bid deposit, was kept in the office files. This matter was brought to the attention of the proper party, and it was deposited during the course of this audit.

**Project 200-1 - Vacancy Loss:** It was noted that contrary to the directions of the State Housing Board no vacancy loss was considered in determining the dwelling rent schedule. It is recommended that the proper entries be made in order to accurately account for all periods of vacancy.

BOSTON HOUSING AUTHORITY

REPORT No. 52-H-85

#### General

**Outstanding Checks:** The reconciliations of the bank accounts of the Chapter 372 Permanent - Administration Fund and the Revolving Fund revealed that some checks have been outstanding for longer than one year. In order to develop a more effective control of such items, the Authority should initiate the practice of stopping payment on checks not presented for payment within one year of their issue date.

**Prenumbered Forms:** The Authority uses standard check books furnished by the banks for all funds with the exception of the Revolving Fund. In some instances these check books were not prenumbered by the printer. All checks should be prenumbered in consecutive sequence so that they all may be easily accounted for. It is suggested that consideration be given to having special checks designed and printed for the use of this Authority.

It is further recommended that the petty cash vouchers used at the individual projects be prenumbered.

**Cash Balances:** The cash balances reflected during the audit period in the develop-



ment funds of the Chapter 200 projects were in most instances far in excess of immediate requirements. The Authority had invested some of the excess funds in order to reduce the net interest costs, but a more prudent financial policy would have further reduced the net interest charges on these projects.

**Pay Roll:** The examination of the time records revealed a weakness in the reporting and recording of time worked. In this connection it was noted that the individual attendance cards did not agree with the pay roll register or the time sheets submitted by the employees. It was further noted that there were instances where there were no time sheets submitted by the employees. It is recommended that the Authority review the pay roll procedures with a view to strengthening the control over the reporting of time worked.

During the course of the examination, it was also noted that two pay roll envelopes containing currency had been in the custody of the pay roll cashier for over four months because an employee had not claimed his wages. It is recommended that unclaimed wages be redeposited after a reasonable period of time.

**Land Purchases:** The examination of the land purchases for the projects subject to audit by this department indicated that there were seven irregularities in the endorsements of the checks drawn for the payment of land. These seven checks amounted to \$1,620.18.

The attorney handling land cases was subsequently indicted for the forging, uttering and larceny of these checks, and he later pleaded guilty to the charges.

The actual funds withheld amounted to \$745.18, because prior to the discovery of the forgeries three of the individuals for whom the Authority's checks were originally intended had been paid off by this attorney by the means of a cashier's check purchased from a bank. There will be no monetary loss suffered by the Authority, because the bank cashing the forged checks is liable for any loss.

On the basis of a better than 95% return of the requests sent to acknowledge receipt of payment for land sales to the Authority, it would appear that the land transactions were proper and regular with the exception of the seven instances noted.

**Purchasing:** Under the present system, requests for purchases are transmitted from the projects to the central office for approval by the Supervisor of Management prior to the actual placing of the order by the Purchasing Agent. The purchases as ordered are then delivered directly to the particular project by the vendor. A receiving report, as evidence of the receipt of the goods, is then returned to the central office and is attached to the invoice prior to the approval for payment. It is suggested that a policy of centralization of purchase requests and receipts would appear to be a requisite in an organization of this size and scope. A central stores control would have the following advantages:

1. Provide a focal point for receiving and distributing the stores
2. Furnish a guide to purchasing by the use of continuous inventory records with maximum and minimum requirements
3. Avoid duplication of purchases with subsequent saving in administrative processes
4. Tend to prevent careless handling and theft
5. Supply a basis of estimating costs for budgetary purposes
6. Provide against future shortages of materials and supplies

**Project Office Cashiers:** The cashiers of the various project offices are apparently responsible for the proper posting and control of the tenants' ledger cards. They must also submit a monthly summary of all the transactions affecting these records to the central office for the posting to the general ledger control accounts.

These cashiers are presently classified for pay roll purposes as management personnel and come under the direction of the supervisor of Management. Since the ultimate responsibility for the accuracy and proper maintenance of these records at the project offices rests with the accounting section, it would appear to be more desirable to have the training, supervision, and control of these employees under the direction of the chief accounting officer.

**Tenants' Accounts Receivable:** The analysis of the Tenants' Accounts Receivable indicated that many of the balances due the Authority appear to be uncollectible. A periodic review of these accounts should be made and the worthless accounts submitted to the members of the Authority for authorization to be written off. The doubtful accounts should be transferred to a suspense account for easier control.

### Temporary Construction Projects

**Insurance Coverage:** There appears to be no fire insurance on these temporary units because the Authority considered the insurance rate on this type of structure prohibitively expensive.

### Chapter 372

### Permanent Construction

**Accounts Receivable - Development:** A review of the accounts receivable of this project indicated that \$65,307.04 was due from the Temporary Construction projects. This balance represented amounts paid by the Permanent Development Fund for obligations incurred by the Temporary Construction projects. These projects could not meet their obligations, since the unexpended balance of the original appropriation had been reverted to the general funds of the City of Boston.

The surplus derived from the operations of the Temporary Construction projects is currently being used to reduce this receivable.

**Certification of Development Costs by the State Housing Board:** This certification of the development costs must be obtained in order that the City of Boston may receive the reimbursement of 10% of the development costs from the Commonwealth. These costs were certified in the amount of \$15,362,826.61 during the audit period, and the City of Boston has received three subsidy payments totaling \$921,769.59.

### Project 200-2

**Management Receipts and Disbursements:** Project 200-2 is managed jointly with Federal Project 2-4. Cash receipts and disbursements of this State Project are recorded in the Federal books and all the funds are kept in the Federal bank accounts. It is suggested that a separate bank account should be maintained for the funds derived from the operation of the State Project.

### FALMOUTH HOUSING AUTHORITY

REPORT No. 52-H-86

**Sewerage Filter Bed:** In June 1951, approximately one year after the occupancy of the project, it was noted that the filter bed was not operating properly. The Authority retained an engineering firm to make an examination of the sewerage filter bed, and it was found that the filter bed had not been constructed in accordance with the plans and specifications.

The Authority ordered the original contractor to make the corrections in this work, and gave notice to the contractor that if the necessary corrections were not made by him, the Authority would proceed to have the necessary work done and charged to him. This contractor would not make the requested changes, and the Authority went ahead with the reconstruction of the filter bed. The contract cost of this reconstruction amounted to \$13,217.00.

The Authority has brought legal action to compel the original contractor and his bonding company to make good the expense caused by the failure of the contractor to carry out the filter bed contract according to the plans and specifications.

### WESTFIELD HOUSING AUTHORITY

REPORT No. 52-H-87

**Permanent Financing:** The Westfield Housing Authority on April 1, 1952 transferred from temporary financing to permanent financing with the issue of bonds in the amount of \$730,000.00, at an interest rate of 2 1/8%. A premium of \$2,299.50 was also received.

The total development cost for the project as of March 31, 1952 was \$744,329.09. This cost was reduced by \$14,442.21 by applying a portion of the income earned during the initial operating period to the total cost. For the purpose of rounding off this adjusted cost to the amount of the bond issue, working capital in the amount of \$113.12 was set up.

The net income earned during the initial operating period amounted to \$20,970.21 and was distributed to the Management accounts as follows:

Reserve for Insurance	\$ 1,511 00
Payment in Lieu of Taxes	1,517 00
Operating Reserve	3,500 00



Reduction of Development Costs	<u>\$14,442 21</u>
	<u>\$20,970 21</u>

Accounts Receivable - Tenants: On May 31, 1952 there were sixteen tenants who were delinquent in their rents. The total amount owed amounted to \$681.50 which amount represents approximately 28% of the rent roll for the month of May 1952. It is recommended that the Authority make every effort to maintain the tenants' account on a current basis.

## EASTHAMPTON HOUSING AUTHORITY

REPORT No. 52-H-88

Permanent Financing: The Easthampton Housing Authority transferred from temporary financing to permanent financing on July 1, 1951, with the issue of \$340,000.00 in bonds bearing interest at the rate of 2 1/8%. The Authority also received a premium of \$3,770.60 on this bond issue.

The total development cost of this project as of June 30, 1951 was \$340,898.63. This cost was reduced by applying \$1,272.59 of the income earned during the initial operating period, and then rounded off to the amount of the bond issue by setting up working capital in the amount of \$373.96.

The total income earned during the initial operating period amounted to \$11,072.59 and was distributed, as follows:

Reserve for Insurance	\$ 2,700 00
Payment in Lieu of Taxes	600 00
Operating Reserve	6,500 00
Reduction of Development Cost	<u>1,272 59</u>
	<u>\$11,072 59</u>

Computation of Tenants' Rents: From the information on file in the office of the Easthampton Housing Authority it would appear that the rents now being charged to tenants have been incorrectly computed for approximately 75% of the tenants. It was also noted that several of the tenants were over the income limits set up for continued occupancy in the project. It is recommended that the Management Section of the State Housing Board consider a review of these rents.

Accounts Receivable - Tenants: It was again noted that this Authority had an unusually high percentage of delinquent rents. It is again recommended that steps be taken to collect rents when due to insure the financial stability of the project.

Operating Reserve: The operating reserve of this project on May 31, 1952 was \$8,261.75, or \$266.50 per unit. The total amount to be set up over a period of 5 years is \$9,300.00, or \$300.00 per unit. It would seem that the provisions for this reserve have been excessive, and it is suggested that the provisions for the operating reserve in the next budget be reduced.

Architect's Fee: The two previous audit reports commented on the basis for payment of the architect's fee. As of the date of this audit the architect has been paid in full on the basis of multiple units when single units were designed and constructed. It is again recommended that the State Housing Board review this contract.

## LYNN HOUSING AUTHORITY

REPORT No. 52-H-89

Tenants' Accounts Receivable: The tenants' ledgers reflected several balances due from former tenants whose present addresses are unknown. It is suggested that these balances be written off against the reserves set up for collection losses.

It was also noted that some of the tenants who were still living in the projects owed several months rent. Although eviction notices have now been served on the majority of these particular tenants, there appears to have been a general laxity in the matter of rent collections as indicated by the balances reflected in the tenants' accounts.

Debt Service Accounts: The comparison of the balances reflected in the general ledger as of May 31, 1952 with the certifications received from the fiscal agents revealed substantial variations. Upon further analysis it was determined that the certifications of the fiscal agents were correct, but that the balances reflected on the Authority's books

did not include any payments made by the fiscal agent in 1952, because the Authority had not received any statements from the fiscal agents since January 1, 1952.

At the present time the fiscal agent submits a statement every six months. It would appear that some consideration might be given to the possibility of the Authority receiving these statements more frequently if practical.

The statements in this report show the true status of the Debt Service accounts as of the date of audit.

Contract for Financial Assistance - Project 200-4: During the course of this examination, it was noted that this particular contract had been increased from \$4,924,000.00 to \$5,890,000.00, and that notes had been issued in the amount of the increased figure. However, as of May 31, 1952, the development costs of this project amounted to \$5,973,950.58, which is \$83,950.58 in excess of the amount authorized under the amended Contract for Financial Assistance.

Since the Authority cannot issue notes in excess of the amount authorized under the Contract for Financial Assistance, it appears that it will be necessary to use the surplus from operations in the initial operating period to pay for the development costs in excess of the amount authorized. This surplus amounted to \$64,511.88 on May 31, 1952 and covered a period of increasing occupancy from October 1951 to the date of audit, at which time the project was almost completely occupied.

Revolving Fund: The check of the Revolving Fund revealed that no general ledger was maintained. This record should be set up in order to simplify the recording of the activities in this fund, and to reflect the complete record of all the financial transactions affecting this fund. As of the date of audit the cash book was the only record maintained.

The Accounts Payable reflected in the balance sheet shown in this report reconciled with the advances made to this Fund by all the projects. However, because all of the expenditures from this fund for the month of May 1952 had not been charged to the various projects, they were not reflected as payables on the records of the projects concerned. The use of a general ledger for the Revolving Fund and the charging of the expenditures at the end of each month to the individual project for its share of the expenditures would bring about a coordination of the accounting records, and the condition mentioned above would not exist.

#### NORTH ATTLEBOROUGH HOUSING AUTHORITY

REPORT No. 52-H-90

Project Inspection: It was noted that the exterior paint did not seem to be weathering well. The paint on the buildings had peeled, and the subcontractor had to repaint all the peeled areas. It would appear that the paint was not properly matched because the spots that were touched up are quite noticeable.

Vouchers: It was noted that all the expenditures are not supported by receipted bills attached to the vouchers. It is therefore recommended that receipted bills be attached to the vouchers, in order that there be documentary evidence available for the verification of expenditures.

Rent Receipt Books: Since the rent receipts used prior to September 1951 were not numbered by the printer, they had no value for auditing purposes and were not inventoried. From September 1951 to the date of audit, all the receipts were prenumbered by the printer and an inventory of these receipts was taken.

Suits Pending: It was noted that there were two legal suits pending involving this Authority, as follows:

Authority Vs. Ferris and Mahoney - Default  
on bid - re the contract for plumbing

Annie and Ernest Upham Vs. Authority -  
Suit over land taken by eminent domain

General - Books of Accounts - Development: It was noted that the Contract Retentions and the Structures and Equipment Account were both overstated by \$2,700.00. A journal entry was made as of May 31, 1952 to correct this situation.

Administration: It was noted that the Tenants' Security Deposit account was under-



stated by \$15.00, and that the Tenants' Accounts Receivable account was overstated by the same amount due to an incorrect posting. It was also noted that the rent roll of June 1951 was overstated by \$.50. It was further noted that the cash account was understated by \$50.25, and that the Repairs, Maintenance and Replacement account was overstated by a like amount due to an incorrect posting. All the above accounts were corrected as of May 31, 1952.

Cash Shortage: In analyzing the rent receipts to the cash book, it was noted that there was a cash shortage of \$125.42 as of May 31, 1952. This shortage was due to the following:

<u>Date</u>	<u>Cash Received per Rent Receipts</u>	<u>Cash Deposited</u>	<u>Difference</u>
February 1952	\$692 60	\$681 03	(\$ 11 57)
March 1952	869 35	836 20	(33 15)
April 1952	836 00	747 30	(88 70)
May 1952	694 10	702 10	8 00
			<u>(\$125 42)</u>

The Executive Director deposited this cash shortage in the bank on June 16, 1952.

At the present time income cash is not deposited as it is received, but is allowed to remain in the custody of the Executive Director for some period of time. It is suggested that these receipts be deposited as soon as possible.

Conditions of General Laws, Chapter 121: Section 26-O of Chapter 121 of the General Laws, reads in part, as follows:

"No member, agent, or employee of a housing authority shall directly or indirectly, have any financial interest in any property to be included in, or any contract for property or materials to be furnished or used in connection with any project of such housing authority. Whoever violates any provision of the preceding sentence shall be punished by a fine of not less than fifty nor more than one thousand dollars, or by imprisonment for not more than one month, or both."

In this connection it was noted that the Executive Director had received payments for Carpentry work and other project maintenance work in the amount of \$457.42.

## AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation of, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants, and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

A complete report of an audit of the accounts of the Metropolitan Transit Authority for the calendar year ending December 31, 1951 was issued on August 15, 1952. In order that our audit might be comprehensive and complete, separate examinations of the accounts of the Boston Metropolitan District and the Transit Mutual Insurance Company were also completed and reports issued.

**Legislative Recommendations:** We have come to the conclusion that there can be no improvement in Railway finances or abatement of the continual and controversial discussion of MTA deficits until the cities and towns of the District have some measure of control over the finances of the Railway. All but a minor fraction of the income of the Railway comes from these cities and towns through fares and deficits, and particularly in the matter of deficits, the present arrangement gives a power to the Authority which violates a basic precept of our form of government -- the power to tax without representation. We strongly urge abolition of the present Board of Trustees and the creation of a Metropolitan Finance Council composed of a representative of each city and town of the Railway District. This Council would not operate the Metropolitan Transit Authority, but would have the same relation to the Railway that the Ways and Means Committee of the General Court has to the average State department. Once a year, probably in December, the Railway would submit to the Metropolitan Finance Council their budget for the next calendar year, together with an estimate of income. The Council would meet with MTA officials to discuss this budget, and the power of the Council to increase, reduce or delete any items in this budget would be final. Should unforeseen contingencies later arise making changes in the original budget imperative, the Metropolitan Finance Council would meet to approve such alterations. Adoption of this suggestion would bring the officials of the cities and towns concerned a closer understanding of Railway finances, and, in addition, would give to local authorities an early estimate of anticipated deficits, which would provide to them adequate time in which to make necessary financial preparations to meet their share of that deficit.

**General:** Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.



## SCHEDULE OF TRANSIT AUDITS

--- FISCAL YEAR 1951 - 1952

Agency	From	To	Report No.
Metropolitan Transit Authority	Jan. 1, 1951	Dec. 31, 1951	52-6
Boston Metropolitan District	Jan. 1, 1951	Dec. 31, 1951	52-58
Transit Mutual Insurance Company	Jan. 1, 1951	Dec. 31, 1951	52-74

The following comments, exceptions and recommendations were included in the reports issued in connection with this examination:

## METROPOLITAN TRANSIT AUTHORITY

REPORT No. 52-6

1. **AUDIT:** This audit was conducted under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947 and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

This report covers the calendar year 1951, and, in addition, separate reports covering the same period have been issued as a result of examinations made of the Boston Metropolitan District and the Transit Mutual Insurance Company, since these agencies in their respective operations are directly related to the MTA.

Generally speaking, the employees of the Railway have been extremely cooperative with the employees of this Department during the conduct of this audit; however, such cooperation has not been extended by the Trustees of the Railway whose great sensitivity to the comments contained in previous audit reports was demonstrated by a letter dated February 5, 1951, which the Chairman of the Board of Trustees wrote to the State Auditor, objecting to the fact that our reports had contained references to operating problems which he said were "responsibilities delegated to the Board of Trustees."

Obviously because this Department declined to recognize the right of the Trustees to limit the scope of this audit, in October 1951 the Trustees at a regular meeting voted unanimously to place certain restrictions on their employees' relations with this Department. Those minutes contained the following:

"... the said Treasurer and Comptroller are hereby further instructed to inform their respective staffs that in the future they are to abstain from attempting to answer any inquiry from the Office of the State Auditor relating to policies of operation or management of the MTA system;"

The line thus drawn by the Trustees is obviously vague and has resulted in considerable delay in the conduct of this audit. Some employees of the Authority ignored the order of the Trustees and answered every question and produced every document requested without delay; others took a strict interpretation of the order and refused to answer any questions whatsoever without first clearing through the General Manager with the Board of Trustees.

It would seem that public officers charged with the responsibility of running a public agency and paid from public funds are not acting in good faith in attempting to conceal pertinent facts by seeking to close their records to the representatives of a constitutional officer of the Commonwealth with full and proper statutory authority conducting an examination of their accounts.

Despite this lack of cooperation on the part of the Trustees, a full and competent audit under accepted accounting standards has been completed and is reported herewith.

2. **GENERAL:** This Department has failed to find any evidence of comprehensive planning on the part of the Trustees and Officers of the Authority to minimize or to eliminate the ever-expanding deficits of the Railway. The same recurring proposal of the Trustees to place the fixed charges of the road directly upon the taxpayers of the District has been made again in their annual report and demonstrates futility on their part in attempting to deal with their major problem, i. e., increasing deficits. Their proposal of direct assessment is a subterfuge and an insult to the intelligence of the taxpayers of the District.

The basic facts are that the Trustees are operating today a larger organization than existed in 1946 when they were carrying 34% more passengers, and are using more equipment today than was used in 1946 to carry 150,000,000 more passengers.

It seems to be more than a coincidence that in practically every instance wherein the Trustees have installed their version of operating economies, such economies have been predicated on immediate and extensive capital outlays, while the promised savings have been vague and unprovable.

The Trustees have continuously undermined their cash position and have succeeded in working the Railway into cash difficulties from which the Trustees of the Boston Metropolitan District, in defense of their own credit, have been forced to extricate them.

The Trustees have borrowed and reborrowed, and in practically every instance of normal capital outlay (for which reserves have been created at the expense of the taxpayer) they have sought legislative permission to replenish the cash thus expended by further borrowings.

This is a vicious circle, and one which can only lead ultimately to disaster. The Trus-



tees claim, and rightfully so, that the Railway is essential to the economic life of the area, but the extravagant policies of these same Trustees can also strangle its economic life.

Evidence of the ineffectiveness of the Trustees in dealing with the present-day problems of the Railway can be readily determined by a study of their legislative recommendations, all of which propose to either add substantial sums to the treasury of the Authority or to pass the debts they have incurred on to the taxpayers. None of their proposals contain any recommendations for economies or savings.

The following bills were filed and supported by the Trustees this year:

Senate #255: An act relative to the issuance of bonds by the Metropolitan Transit Authority for the purpose of making capital additions or improvements to its passenger-carrying rolling stock or of acquiring additional equipment therefor.

This proposal of the Trustees was adopted by the General Court and became Chapter 546 of the Acts of 1952.

Attention is directed to the fact that this act will permit the Trustees to borrow up to \$3,000,000.00 to replace, in the cash of the Railway, funds previously expended for capital improvements to the rolling stock of the Railway, and it is worthy of comment that expenditures thus eligible for replacement total only \$1,513,960.43.

This Act also provides that such borrowings may be made for periods up to thirty years. Should the Trustees take advantage of the long term thus provided in order to minimize deficits, the taxpayers of 1980 will be paying for motors, transmissions and the reconditioning of cars worn out and scrapped long before. It is recommended that such borrowing, so far as practical, be geared to the prospective life of the article purchased.

In seeking this legislation, the Trustees are attempting to restore their cash position which was destroyed by their spending spree during the early months of 1951, and to accomplish this they have placed themselves in a most ambiguous and contradictory position.

This Department contends that these items are depreciable, and therefore funds for their replacement were available to the Trustees from the \$1,200,000.00 annually collected from the taxpayers in the deficit as the cost of depreciation. The Trustees, on the other hand, maintain that these items are a part of the rolling stock of the Railway and therefore are not depreciable. Such an argument apparently suits the immediate needs of the Trustees, but it is not consistent with the facts, for if the items involved are a part of rolling stock and are not depreciable, then they are a proper charge against the \$10,000,000.00 previously authorized by the General Court for replacement of rolling stock, and this legislation is superfluous and costly from the taxpayers' point of view, since its only effect will be to provide more borrowed cash for the Trustees to dissipate.

Senate #256: An act eliminating from the cost of service of the Metropolitan Transit Authority certain sums payable by said Authority to the Boston Metropolitan District.

This bill is an insult to the intelligence of every taxpayer and every official within the Metropolitan Area, for it proposes that the cost of the debt of the Railway shall be assessed directly upon the cities and towns of the District. It was properly rejected by the General Court. The net effect would be to put the operations of the Railway in a better light and provide a less publicized means of levying MTA deficits. Certainly there is no saving involved here for the taxpayer, and should it ever be adopted, then practices such as those recommended by the Trustees in Senate #255, already referred to, would be greatly encouraged. Senate #255, in effect, recommends amplification of the debt to provide extra cash to the Railway, while Senate #256 would remove the cost of such borrowings from the MTA's financial responsibilities. It can be safely predicted that should Senate #256 or its equivalent ever be adopted, the Authority would abandon what little restraint they now have in further extending their debts.

Senate #257: An act relative to the use of certain funds held by the Metropolitan Transit Authority and the purposes for which certain bonds may be issued by said Authority.

This bill was adopted by the General Court and became Chapter 551 of the Acts of 1952.

The Authority referred to this legislation as a perfecting amendment; however, both sections of the act are designed solely to provide the Authority with borrowed cash. At the time the subways were purchased from the City of Boston, the Railway received \$228,411.07 from the City of Boston, which represented the unexpended balance of bor-

rowings made by the City at the time when the City was constructing subways. Of this amount, the Authority has expended \$155,662.02 in furtherance of the work originally started by the City, and now with the work completed, there is a balance remaining of \$72,749.05. The Trustees now feel that this money should be released to them to spend in any manner they may desire. It is typical of the attitude of the Trustees that they dislike to see funds tied up, since this prevents easy expenditure, but actually this money is still owed by the taxpayers of the District. The proper and ethical thing to do with this balance is to turn it over immediately to the Boston Metropolitan District, and this procedure would result in a reduction in the amount now being directly assessed on the District.

Acceptance of this recommendation of the Trustees would provide them with \$72,000.00 of borrowed money to spend, which the taxpayers must pay back.

The second section of the act, according to the Railway, only permits the Authority in the future to make certain expenditures prior to the issuance of bonds and subsequently to borrow money to replace such expenditures.

Actually there is nothing in the statute which would prevent the Trustees from recovering cash already expended.

It is hoped that the Trustees will limit the application of this statute to their future needs.

Senate #258: An act providing for reimbursements of expenditures incurred by the Metropolitan Transit Authority for plowing, removing and abating of snow and ice on the public ways.

The actual scope of this proposal is almost unbelievable, and the boldness of the Trustees in advocating its adoption constitutes consummate audacity. The bill was properly rejected by the General Court, since under its provisions the MTA would have been permitted to bill each city and town in the District for the cost of snow removal. It can be easily imagined what the cost of snow removal would amount to under such an arrangement and under such management. By contrast, attention is directed to the fact that each city or town in their own snow removal activities are restricted to the amounts appropriated for such purposes, whereas adoption of this legislation would have allowed the MTA to proceed without appropriation limitations and to arbitrarily assess their cost upon the cities and towns concerned. It would be more appropriate for the city and town to bill the Railway for the cost of clearing snow from MTA routes.

Senate #259: An act relative to the amount of bonds or notes which may be issued by the Metropolitan Transit Authority for the purpose of acquiring cars, motor buses, and trackless trolley vehicles.

This bill was adopted by the General Court and became Chapter 549 of the Acts of 1952.

Originally the Trustees were allowed to borrow up to \$10,000,000.00 for the purchase of new equipment and for the replacement of worn-out equipment. This authorization was in the nature of a revolving fund, inasmuch as the \$10,000,000.00 was set up as a ceiling and as the outstanding debt would be reduced by retirements, the Trustees could again expend the difference up to \$10,000,000.00 to further replace worn-out equipment. At the time that this amount was originally approved, it was deemed adequate for the purposes intended, since it was expected at the time that the Trustees would use some discretion and restraint in the purchase of equipment so that funds would always be available to them. Actually, the Trustees rushed into the purchase of new equipment to such an extent that they actually exceeded the \$10,000,000.00 allowed and were compelled to use \$600,000.00 of the cash of the Railway to pay for purchases in excess of the amount authorized.

This Act raises the limit of such borrowings from \$10,000,000.00 to \$15,000,000.00, and it can be safely predicted again that there will be immediate borrowing and expenditures to the full limit of the \$15,000,000.00 authorized.

3. BOARD OF TRUSTEES: An examination of the minutes of the Trustees' meetings held during the year 1951 disclosed a remarkable unanimity of opinion among the Trustees on every matter brought before them for vote. Of approximately 400 votes appearing in the minutes, every proposal was adopted unanimously by the Trustees; in not one single instance was a dissenting vote recorded.

It is unfortunate that these minutes do not disclose the source of most of the proposals upon which the Trustees voted, but it may be safely assumed that in most instances the matters voted upon were placed before the Trustees by the officers of the Authority. In



view of the fact that the Board of Trustees receive annual salaries totaling \$31,500.00 per year, it would appear that savings in that amount would result, with no effect upon the current policies of the Authority, should the Board of Trustees be entirely abolished. Since, however, policies dictated by the officers of the Railway, which the Trustees have obediently followed, have resulted in a deterioration of the financial position of the Authority, the management would be more effective if the Board of Trustees were abolished and an unpaid council composed of representatives of the fourteen cities and towns of the District established to replace the present Trustees.

In this connection, previous reports have included the following:

"Section 1 of Chapter 544 of the Acts of 1947 states that the territory within and the inhabitants of certain cities and towns are made a body politic and corporate and a political subdivision of the Commonwealth under the name of the Metropolitan Transit Authority. From this it would appear that the funds of the Authority are in the category of public funds.

"It is a generally accepted principle that the handling of public funds should be subject to budgetary and personnel controls exercised by some agency other than the one responsible for the expenditure of the funds. It is, therefore, recommended that some arrangement be made to provide external budgetary and personnel controls. The ideal method would be to have such controls exercised by representatives of the fourteen cities and towns who own the Authority. In this connection, it is recommended that consideration be given to the advisability of reviving the Metropolitan Transit Council, which consisted of the Mayors and Chairmen of the Boards of Selectmen of all the cities and towns in the District which Council was abolished by Section 8 of Chapter 572 of the Acts of 1949, and placing with this Council final authority over the operations of the Railway."

We have come to the conclusion that there can be no improvement in Railway finances or abatement of the continual and controversial discussion of MTA deficits until the cities and towns of the District have some measure of control over the finances of the Railway.

As all but a minor fraction of the income of the Railway comes from these cities and towns through fares and deficits, and, particularly in the matter of deficits, the present arrangement gives a power to the Authority which violates a basic precept of our form of government -- the power to tax without representation.

We strongly urge the creation of a Metropolitan Finance Council composed of a representative of each city and town of the Railway district. This Council would replace the present Board of Trustees, and since control of the finances of the Authority would in actual effect, control the Railway itself, it is suggested that, annually, the officers of the Railway would submit to the Metropolitan Finance Council their budget for the next calendar year, together with an estimate of income. The Council would meet with MTA officials to discuss this budget, and the power of the Council to increase, reduce or delete any items in this budget would be final.

Should unforeseen contingencies later arise making changes in the original budget imperative, the Metropolitan Finance Council would meet to approve such alterations. Actual operation of the Railway would be left to its officers, who would be appointed and removed by the Council.

Adoption of this suggestion would bring to the officials of the cities and towns concerned a closer understanding of Railway finances, and, in addition, would give to local authorities an early estimate of anticipated deficits, and thus provide them with adequate time in which to make necessary financial preparations to meet their share of that deficit.

4. FUNDED DEBT: As of December 31, 1951, the principal amount of the funded debt of the Metropolitan Transit Authority amounted to \$131,125,965.45, an increase during the year of \$9,965,407.40. The deficit reported for the year 1951 by the Railway amounted to \$5,315,084.20 and of this amount, \$4,340,917.54 was the cost to the Authority for the interest and retirement of this debt, while an additional cost of \$651,592.60 was assessed directly on the taxpayers in retirement of the subway debt. It is immediately obvious that a major part of the cost to the taxpayers for the operations of the MTA arises from the funded debt. Further expansion of this debt must be regarded with some concern, but apparently, from the activities of the present Trustees, their only interest is in foisting the cost of the debt upon the taxpayers.

For purposes of illustration, this debt can be divided into three general categories:

(a) Original Debt: On December 31, 1951, this debt had been reduced to \$68,918,371.89, and represented the balance of the debt of the Boston Elevated Railway

Corporation existing at the time the road became publicly owned. A study of the financial operations of the Railway indicated that, at the time, the debt was being retired at an unreasonably rapid rate, since, except for one year under public control, all Elevated deficits could be entirely attributed to the cost of the funded debt.

In a report issued in 1947, this Department recommended that retirement of the debt be retarded, and, as a result, Chapter 572 of the Acts of 1949 provided for an orderly, equitable, but lengthy retirement of the debt. This statute requires that the debt be retired at the rate of \$1,000,000.00 per year in payments of semi-annual installments of \$500,000.00 on December 1st and June 1st of each year. Since August 29, 1949, under the provisions of the same Chapter 572, this debt has been reduced two and one-half million dollars; and, in the same period, the MTA has paid interest in the amount of \$3,687,402.11.

The present Trustees of the Railway have made several efforts to have the cost of this debt directly assessed upon the taxpayers of the District, which would, of course, put the Railway's financial operations in a better light but would produce not one penny of relief for the taxpayers, and certainly if this change were adopted it would encourage the Trustees to seek enlargement of the debt.

(b) Subway Debt: Under the provisions of Chapter 572 of the Acts of 1949, the Metropolitan Transit Authority acquired title from the City of Boston to all subways used by the Railway. On August 3, 1949, the debt in connection with the acquisition of these subways amounted to \$40,219,445.43. It is worthy of comment that the provisions of Chapter 572 required that the cost of retiring this debt shall be assessed directly upon the cities and towns of the District, and, at that time, this annual cost amounted to \$536,259.27. This provision of the statute has had the effect of lowering the reported deficit of the Authority and has encouraged the Trustees to attempt to obtain legislation which would apply the same procedure to all their debts. A comparison between the status of the Original Debt, which is being paid entirely by the Authority, and the Subway Debt, which is being retired by direct assessment on the taxpayers, is enlightening. The Original Debt, paid by the Railway, has been reduced since 1949 by \$2,500,000.00, while the Subway Debt, which must be retired at the direct expense of the taxpayers, had, under the direction of the present Trustees, been increased \$13,961,666.67 to \$54,181,112.10, and the annual cost to the taxpayer has consequently been raised from \$536,259.27 to \$722,592.60.

During the period from August 3, 1949, the taxpayers have paid in direct assessment in reduction of this debt a total of \$1,289,851.87, and in the same time the Authority has paid in interest a total of \$4,068,271.67.

(c) Equipment Debt: Chapter 544 of the Acts of 1947 provided that all future purchases of revenue equipment would be made from bond issues and limited the amount of such borrowings outstanding at one time to \$10,000,000.00.

From April 15, 1948 to December 31, 1951, the total monies borrowed for this purpose amounted to \$10,142,000.00, and as of December 31, 1951 the amount outstanding amounted to \$9,303,000.00. Early in 1951 the Trustees purchased thirty-five buses at a cost of \$592,827.87, and this purchase brought the total to an amount in excess of the \$10,000,000.00 allowed by the Legislature, and, therefore, the Railway was required to pay for these thirty-five buses from the regular cash of the Railway. On January 15, 1952, bonds in the amount of \$592,000.00 were issued, and the regular cash was reimbursed for this expenditure.

In attempted justification of the established fact that the Railway today operates more equipment to carry 288 million passengers a year than was operated in 1946 to carry 433 million passengers, the MTA in a statement to city and town officials attempted to prove that there has been no lessening in the demand for transportation in the rush hours, and that their entire passenger losses are incurred on Sundays, holidays, evenings and between rush hours.

While this statement may be correct, it has no relation to the point in question. In the annual report of the Railway dated December 31, 1951, the Trustees have included on the next to last page a schedule listing the rolling stock owned by the Railway on that date. The statement shows a total of 2,339 vehicles owned, while on the last page there has been shown a chart illustrating the number of vehicles used by the Authority during the various hours of the day and night. According to this chart, the absolute peak needs of the Railway total 1,575 vehicles. It follows, therefore, that at periods of maximum travel the Authority has lying idle 764 vehicles, and yet the Trustees claim a need for an additional \$5,000,000.00 for more equipment.

The Railway also claimed that in the next three years 762 vehicles will become over-age, yet on December 31, 1951, by their own statement, they had 764 vehicles in excess



of their peak hour needs, and, again from their own statement, the Railway feels that a substantial number of these vehicles must be replaced when they become overage by the Trustees' standards, and these standards have been very liberally drawn.

Overage should mean that the cost of maintaining the vehicles becomes prohibitive because the vehicle is worn out. Overage by the MTA's standards apparently means that when a vehicle reaches a certain age, regardless of condition, it is to be scrapped and replaced. On the first and correct basis, how can the MTA today say with certainty that in the next three years, 356 vehicles will require replacement, and, if their statement is correct, certainly with an excess of 764 vehicles now on hand, the worn-out vehicles will not need replacement.

5. DEFICIT - 1951: For the year 1951, the Railway has reported a net assessable deficit of \$5,315,084.20. During that year, for only the third time since 1918, under public control and public ownership, the Railway has reported an operating deficit. In actual fact, under accepted accounting standards, this operating loss could have been entirely eliminated and the assessable deficit reduced to \$4,608,956.32, since the following improper charges were made to the cost of service by the Trustees during 1951 and have inflated the assessable deficit by \$706,127.88.

(a) Depreciation: In a statement issued to the officials of the cities and towns of the MTA District, the Authority stated:

"The purpose of a depreciation charge is to provide funds out of income to replace depreciable property when it wears out or becomes obsolete."

While we may agree with this brief explanation of the purposes of a depreciation charge, nevertheless we find it necessary to call attention to the fact that in the operation of the accounts of the Railway, the Trustees have ignored their own explanation of depreciation.

During the year 1951, the taxpayers were overcharged \$460,000.00 by the Trustees in charges for depreciation which have no relation to the replacement of "depreciable property when it wears out or becomes obsolete."

In a pamphlet issued by the Metropolitan Transit Authority dated December 31, 1947, it was noted that an amount in excess of \$8,000,000.00 had been transferred from "property fully accruable in prior years" to "property upon which depreciation is accruable."

Actually, therefore, the Trustees are depreciating again property already fully depreciated, and the effect of this arbitrary transfer has been to inflate the annual operating costs of the Railway by approximately \$160,000.00 a year, thereby increasing deficits and assessments on the taxpayers.

The cost of service, at present, is also being charged approximately \$25,000.00 a month to provide funds for the replacement of elevated structures. It must be perfectly obvious to the Authority that the Railway will never have to bear the cost of replacing the elevated structures, but by the continuance of this practice the present Trustees have added approximately \$725,000.00 to recent deficits and have provided themselves with that much more unrestricted cash.

The Trustees have also based their contention that Elevated structures must continue to be depreciated on their statement that such depreciation is "in accordance with . . . . the requirements of the Interstate Commerce Commission and of the State Department of Public Utilities."

The continual reference to the requirements of the Interstate Commerce Commission which features their attempted justification of accounting practices not in accord with the best interests of the taxpayers, is a subterfuge. Actually, the MTA is a public agency operating only within the Commonwealth of Massachusetts, and, as such, the Railway is not bound by accounting practices established by the Interstate Commerce Commission. It should be kept in mind that the I. C. C. is designed primarily to regulate the operations and accounts of private corporations, and many accounting practices, which are sensible and even mandatory in private corporate accounting, should not be applied to operations of a publicly-owned Railway.

The continuance of these practices by the Trustees represents a manifest overcharge to the cost of service and results only in placing cash at the disposal of the Trustees which they are expending immediately for purposes which have no connection with the replacement of worn-out or obsolete equipment.

(b) Charges for Injuries and Damages: In 1951, the charges to the cost of service for the additions to the injuries and damages reserve amounted to \$1,575,000.00, while only \$1,420,402.29 was paid out for injuries and damages. This excessive charge to the

cost of service in 1951 increased the deficit \$154,597.71.

(c) Capital Expenditures Charged to Operating Expense: An examination of the charges to the cost of service revealed that expenditures of \$85,800.17 for tokens and \$5,730.00 for safes for the storage of tokens had been charged to operations. This method of accounting for these particular expenditures is contrary to the accepted accounting principle of capitalizing this type of expense and apportioning the charge over a period of years.

When questioned concerning the accounting treatment employed by the Railway, an MTA official stated that it is the practice of the transit industry to charge tokens to operating expense when purchased. As a result of a letter sent by this Department to the Chicago Transit Authority, to verify this statement, the following reply was received, which is in direct contradiction of the statement of the MTA official:

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CHICAGO TRANSIT AUTHORITY  
175 West Jackson Boulevard  
Chicago 90, Illinois

Mr. H. M. Eveleth, First Deputy Auditor  
The Commonwealth of Massachusetts  
Department of the Auditor  
State House  
Boston, Massachusetts

Dear Sir:

Replying to your letter of May 13, 1952, requesting information regarding the accounting treatment employed by the Chicago Transit Authority in the handling of the purchase of tokens, please be advised that these tokens are capitalized when purchased and are not charged to operating expense.

Yours very truly,

s/ A. C. Jann  
General Accountant

ACJ:mb

It would appear from the above that the Trustees have no alternative other than to reverse the improper entries that have been made and thus reduce the 1952 deficit.

The above practices are obviously designed for but one purpose -- to add to the unrestricted cash at the disposal of the Trustees. Their attempts to further enhance their cash through legislation have been largely denied by the General Court; however, in the operation of their accounts, no such control exists, and, therefore, through questionable accounting practices, substantial sums are being levied upon the taxpayers of the District to provide unrestricted funds for the extravagance of the Trustees.

6. CASH POSITION: The unrestricted cash held by the Metropolitan Transit Authority on December 31, 1950 amounted to \$7,113,407.80, and despite the fact that this cash was enhanced by \$539,820.43 by receipt of the 1950 deficit and by a temporary loan of \$3,000,000.00 through the Boston Metropolitan District on October 1, 1951, by the end of the year this cash had dwindled to \$3,555,539.93.

It is ridiculous to argue, as the Trustees do, that this impairment in cash resulted entirely from increased operating costs, since losses resulting from these sources would, under normal circumstances, be replaced when the deficit is received from the cities and towns. Actually, at the time the 1951 deficit of \$5,315,084.20 was received by the Railway in 1952, a total of \$5,000,000.00 had to be paid by the Railway to the Boston Metropolitan District for temporary borrowings made by the Railway Trustees; therefore, the deficit payment did not reinstate the previous cash position of the Railway.

A substantial part of the loss in the cash position must be attributed to reckless expenditures on the part of the Trustees.

(a) The Trustees were authorized by the Legislature to borrow up to \$10,000,000.00 for the purchase of new equipment. During the 1951 year, either knowingly or unknowingly, the Trustees committed themselves to purchase thirty-five buses at a cost of \$592,827.87,



which purchase exceeded the \$10,000,000.00 allowed by the General Court, and, therefore, these buses were paid for from the unrestricted cash of the Railway.

(b) During the year 1951, there was actually reserved \$1,200,000.00 for the purchase of capital items, and this entire amount is reflected in the deficit for the year 1951. During that same year, the Trustees actually spent \$3,010,564.55 for these purposes, and these expenditures had the natural effect of reducing the unrestricted cash by \$1,810,564.55. Since there are no profits available to the Authority to compensate for this drain, the cash position has been irreparably damaged, and it was as a direct consequence that it became necessary for the Authority to borrow \$3,000,000.00 on October 1, 1951 through the Boston Metropolitan District.

In the first seven months of 1951, the Trustees authorized capital expenditures totaling \$4,019,614.97, and during that same period only \$700,000.00 was reserved for such purposes. At the time, this Department objected to such recklessness, and the Trustees stated:

"... Many of the projects involved were carried over from 1950 and are in the process of completion."

This statement was obviously intended to mislead, since the \$4,019,614.97 authorized by the Trustees in 1951 was entirely in addition to \$2,263,589.16 paid out for capital expenditures in 1949 and 1950 by the same Trustees.

In further attempted justification, the Trustees stated that a substantial part of these authorizations --

"... was made necessary as a result of the legislation extending the East Boston Tunnel to Orient Heights, ..."

Attention is directed to the fact that the cost of all construction ordered by the Legislature in connection with this project is paid from bond issues. All additional expenditures are being made from independent authorizations of the Trustees and are neither imperative nor essential to the construction ordered by the General Court.

Any discussion of the necessity for these expenditures is secondary to the main issue that it is economically impossible to authorize expenditures six times the amount being reserved, as is evidenced by the fact that the cash position of the Railway, which was excellent on January 1, 1951, deteriorated to such an extent that the Railway was forced to resort to temporary borrowings in October.

Insofar as these expenditures of the Trustees are concerned, we fail to find, after analysis, one single item of expenditure that guarantees additional revenue to the Railway, and while the Trustees have claimed savings will result from certain of their expenditures, the savings, even as estimated, do not in most cases justify the expenditures involved.

The real question, is, then, whether or not such expenditures by the Trustees are imperative enough to justify wrecking the cash position of the Railway and endangering future operations. The solution is simple enough. Either the Trustees must limit capital expenditures to \$100,000.00 per month, or they must raise the amount reserved for such purposes, with a consequent increase in the deficit. The evident policy of the Trustees to borrow money indicates that the Railway is unwilling to face the facts of the situation and seeks postponement of the day of reckoning. Sooner or later the cities and towns of the District will pay with the taxpayers' cash the costs now being accumulated and postponed by the Trustees.

The full extent of the cash impairment of the Railway by the Trustees is even more clearly demonstrated by the fact that while the balance sheet of the Authority on the liability side shows two substantial reserves, actually as a result of reckless expenditures on the part of the Authority, the Railway has no cash available to cover these reserves.

(a) Provision for Additional Prior Years' Federal Income Taxes: On December 31, 1951, the balance in this reserve amounted to \$1,798,171.78, a reduction of \$14,205.66 from the amount reserved on December 31, 1950. This reduction resulted from a payment made to the Collector of Internal Revenue for additional Boston Elevated Railway income taxes for the year 1940 plus accrued interest, and was ordered pursuant to findings by the Tax Court of the United States.

To provide this reserve originally, the cost of service for the years 1943 and 1944 was charged an additional \$1,812,377.44. Final determination as to whether or not additional taxes are owed to the Federal Government has not yet been made, but when the decision is ultimately arrived at, the Authority, having dissipated the funds that were raised by as-

sessments on the cities and towns to provide this reserve, will find themselves in a most peculiar position. Should the decision ultimately come down in favor of the Authority, then the deficit for the year in which the decision is reached must be reduced in a corresponding amount, and since the Trustees have dissipated the cash reserved, such a reduction would be disastrous and necessitate further temporary borrowings. Should the decision of the court be unfavorable to the Railway and order that this amount be paid to the Government, the Railway would be immediately forced to borrow under temporary notes through the Boston Metropolitan District, since it has no cash available with which to pay the judgment.

It would appear that the Trustees of the Authority cannot be trusted to maintain unfunded reserves, and, therefore, it is recommended that in the future when such reserves are set up that they be funded and in this manner placed beyond the ability of the Trustees to expend for other purposes.

(b) Provision for Injury and Damage Claims: On December 31, 1951, the balance in this account totaled \$1,932,782.72, and it is worthy of comment that this reserve has more than doubled itself over the past six years, as is demonstrated by the following schedule:

	Balance January 1, 1946	Additions to Reserve	Charges to Reserve	Balance December 31, 1951
1946	\$885,800 68	\$1,355,000 00	\$1,171,472 04	
1947		1,316,002 74	1,101,226 90	
1948		1,300,000 00	1,159,866 06	
1949		1,350,000 00	1,167,706 20	
1950		1,400,000 00	1,228,347 21	
1951		1,575,000 00	1,420,402 29	
	<u>\$885,800 68</u>	<u>\$8,296,002 74</u>	<u>\$7,249,020 70</u>	<u>\$1,932,782 72</u>

The manner in which this reserve has expanded in the last six years is adequate evidence that the cost of service has been overcharged in each of the last six years in an amount equal to the annual increase in the reserve. Our previous report recommended:

"It is suggested that the balance in this reserve as of December 31, 1950, be added to revenue thereby reducing the deficit, and that future payments for injury and damage claims should be charged directly to the cost of operations. As this Authority is a public agency, the practical need for a reserve account of this nature is not as important as the necessity of presenting true costs to the taxpayer."

This reserve exists only on the books of the Authority, and we have only to quote the Trustees themselves in a statement which they issued to the officials of the cities and towns of the District, in which they said:

"If the present reserve for injuries and damages was transferred to surplus account, as suggested, it would reduce the cost of service deficit in the year transferred, but would also reduce the Authority's working capital in the same amount, which would necessitate additional borrowing by the Authority."

This statement is entirely correct and adds emphasis to our contention that unrestrained capital expenditures are undermining the financial structure of the Railway, and, at the same time, it gives further impetus to our suggestion that the reserve for injuries and damages be eliminated. The Railway admits in its statement that the reserve exists only on paper, and it is unthinkable that the taxpayers of the District should have been overcharged in six years a total of \$1,046,982.04 to provide only a theoretical reserve to the Railway.

We agree that, as a result of depletion of the Railway's cash, further temporary borrowings will now result if this reserve is eliminated, but the Trustees have evidenced no great restraint or antipathy to such borrowings when it suited their own convenience, and certainly where legitimate savings of \$1,932,782.72 to the taxpayers will result from such borrowings, the Trustees should have no valid objections.

It may be expected that the Trustees will take no action on the above suggestion, and, therefore, to prevent the Trustees from continuing to use this cash for other purposes, we recommend as an alternative proposal that this reserve be funded and that all charges



to the cost of service for injury and damages be earmarked for that specific purpose alone and not intermingled with the regular cash which the Trustees regularly dissipate.

7. NEW CONSTRUCTION: During the year 1946, the then Boston Elevated Railway carried 433,000,000 passengers, while in 1951 the Metropolitan Transit Authority carried 288,000,000 passengers, representing an approximate decrease of 34% in the number of passengers carried, and it now appears that this decline in passenger riding may be expected to continue.

Many millions of dollars are being expended to improve existing facilities for passenger automobile traffic in and out of downtown Boston. While it is agreed that these expenditures are necessary to maintain the economic status of the City, it should also be remembered that these improvements will have the definite effect of adding to the decline of the revenue of the Railway. The Trustees of the MTA, however, apparently in complete unawareness of the future prospects of the Railway, have not reappraised certain legislative authorizations granted to them for expanding the capacity of certain sections of the Railway and for certain alterations.

(a) Washington Street Tunnel: Chapter 649 of the Acts of 1949 authorized the Authority to construct an addition to the Washington Street Tunnel from Haymarket Square to Sullivan Square at a cost not to exceed \$24,000,000.00, and a further addition from Boylston Street to Forest Hills at a cost not to exceed \$31,000,000.00.

It should have been immediately obvious to the Trustees that such extensions could not be built within the sums authorized, and they should have immediately reported this fact to the Legislature; instead, however, they elected to immediately borrow \$825,000.00 to provide funds to prepare preliminary plans for these extensions, and up to December 31, 1951 they had authorized expenditures totaling \$693,907.90 from this borrowed money. Of this amount, \$636,513.56 was spent for the cost of preliminary engineering, with approximately \$50,000.00 expended for land appraisals. Not until this huge sum had been expended did the Trustees finally announce that these extensions could not be made within the limits of the funds provided by the Legislature, and now the taxpayers, by direct assessment, will be called upon to pay the \$825,000.00 which the Railway has borrowed, and unless some positive action is initiated, these expenditures will have been wasted.

There is no doubt but that the removal of these elevated structures would constitute a substantial improvement so far as the City of Boston is concerned, but the problem involved should be faced squarely -- the Authority itself cannot provide the funds to remove these structures without adding one million dollars a year to its deficit.

It can be argued on a sound basis that removal of these structures is of little value to the Railway, since no additional revenue would accrue from the change, and any reduction in operating costs that might result would prove negligible. In the overall handling of surface traffic and the improvement of abutting property values, however, removal of these structures would prove a sound investment.

Since plans for this alteration are now dormant, it is recommended that the Legislature consider the possibility of providing funds from some other source to proceed with this major improvement.

(b) Addition to Tremont Street Subway: Under Chapter 622 of the Acts of 1948, the Legislature authorized the expenditure of up to \$11,500,000.00 to make certain changes in the Tremont Street Subway.

This expansion of the Tremont Street Subway facilities was first recommended by the Trustees in their annual report for the year ending December 31, 1947. In recommending this alteration, the Trustees originally stated:

"The capacity of the surface car subway system is overtaxed in the rush hours. The operation of individual cars in trains has helped to speed up service, but not sufficiently. There is serious congestion and slowing down in this subway system due to the bottleneck which occurs between Park Street and Scollay Square Stations ..."

While this statement when originally made was correct, it should now be re-examined in light of the present passenger load of the MTA, for in 1951 the Authority carried only 288,000,000 passengers, and while this section of the subway might have been overtaxed in carrying 388,000,000 passengers in 1947, certainly a drop of 100,000,000 passengers must have eased the situation substantially.

No recommendations of a restudy have come from the Trustees, and it seems fairly obvious that this is the type of expenditure with which the Trustees agree wholeheartedly,

since regardless of cost, whatever funds are expended in the alteration of these facilities -- the retirements of such borrowings will be assessed directly upon the taxpayers and will not be reflected in the annual deficits of the Authority.

It is again recommended that the Authority revise and scale down their plans for improvements at Tremont and Park Streets.

(c) Extension of Rapid Transit in East Boston: The new East Boston Tunnel Extension was officially opened on January 5, 1952 and extends from Maverick Station to Orient Heights, with a further extension to the vicinity of the Suffolk Downs race track. As of the date of this audit, the Authority had expended \$12,022,216.98 on this project, and, in addition, previous to the Authority's taking over the subways, the City of Boston had expended \$5,950,000.00, bringing the total cost to date to \$17,972,216.98.

Much criticism has resulted concerning the size and location of the newly constructed Airport Station on this extension, and it appears that in planning this subway, more consideration was given to the few passengers who might use this station in connection with airline services than to the ordinary everyday East Boston commuters. Original planning should have placed this station in a direct line between Maverick Square and Day Square, which would have provided much more convenient and economical service to those living in the area; however, the station was obviously constructed for the convenience of the airport and is today handling a small fraction of its real capacity.

In the previous audit report, this Department recommended that the East Boston Extension be continued to Revere over the old right of way of the Narrow Gauge Railway, which is owned by the Authority.

Legislation has been submitted with the current session of the General Court to provide for this extension to Revere, and it is worthy of comment that such an extension was not advocated by the Trustees, but rather, came from Representatives in that section.

This extension would provide far better service to the people of Revere and should result in a substantial reduction in the operating costs of the Railway in the Revere area, since much of the feeder service can be eliminated. It is also obvious that rapid transit service to Revere should substantially increase the patronage of the Railway.

It has been estimated that this extension will cost \$3,000,000.00, but, unless construction costs increase substantially, the extension should cost only slightly more than \$2,000,000.00.

(d) Off-Street Parking: On November 25, 1949, under the provisions of Chapter 544 of the Acts of 1949, the Authority borrowed \$150,000.00 for the purpose of providing off-street parking facilities, and as of December 31, 1951 had expended \$49,710.12 for that type of installation.

It is perfectly obvious that a further expansion of off-street parking facilities by the MTA is unwarranted, but it is also clear that an increase in these facilities at outlying rapid transit stations of the Authority could provide a major means of relieving traffic in downtown Boston. From a practical point of view, it is almost impossible for the Railway to recover, by way of additional revenue, the costs of providing these areas.

The continued expansion of parking facilities in downtown Boston has had the effect of further reducing the passenger traffic of the Railway. These parking facilities in downtown Boston, also, are provided at high costs and cause the elimination of much taxable property. It is recommended that the Legislature study this problem, and that funds be provided from some other source to provide more extensive parking facilities at outlying MTA rapid transit stations, which would result in --

- 1) Added revenue to the Railway,
- 2) Easing of traffic in downtown areas,
- 3) Lessening of Boston's cost in providing downtown parking.

8. LEASED ROADS: Under the terms of an agreement entered into on February 16, 1903, the MTA operates certain lines leased from the Eastern Massachusetts Street Railway Company, and during the calendar year 1951 the cost to the Authority under the terms of this lease amounted to \$30,248.50.

The cost was arrived at under the following formula:

6 1/8% of replacement value	\$13,717 64
4% of additions value	10,340 77
Share of corporate franchise tax paid by Eastern Mass. St. Railway	6,190 09
	<u>\$30,248 50</u>



In previous years the MTA had been paying an annual rental in an amount in excess of \$40,000.00 per year to the Eastern Massachusetts Street Railway; however, on February 1, 1951 a payment of \$229,205.50 was made to the Eastern Mass. for the acquisition of the Charles River Line in West Roxbury, and, as a result, the annual rental was reduced by approximately \$10,000.00.

In view of the fact that the MTA Trustees are obviously committed to a policy of replacing trolley lines with trackless trolleys, attention is directed to the fact that no attempt should be made to replace trolley cars on these leased lines unless they first acquire ownership of them from the Eastern Massachusetts Street Railway.

The terms under which these lines are leased require that the MTA shall pay the cost of all additions, and that the rental paid annually shall include four per cent of the cost of these additions.

Should the MTA, therefore, while these lines are leased, expend the substantial sums necessary to convert these lines to trackless trolleys, their annual rental charge would be correspondingly enlarged.

At the 1951 session of the General Court a bill was filed by a civic organization to provide the MTA with authority to acquire title to these leased lines by eminent domain. The MTA Trustees were strangely silent when this bill was discussed, and it was not passed by the General Court.

It is recommended that the Trustees file such legislation with the next session of the General Court.

9. PURCHASING: Generally speaking, the Purchasing Department of the Railway follows a policy of competitive bidding on purchases, but an analysis of the procedure clearly indicated that in some instances there had been blind adherence to this policy to a point that is both impractical and expensive. For example, for a purchase amounting to \$3.10, thirty-one bids were sent out by the Purchasing Department and seventeen proposals were received in return. It is fairly obvious that on purchases of this size the cost of postage alone and the paper work involved is wasteful.

On the other hand, it is worthy of comment that in the awarding of two contracts for the maintenance of escalators amounting to \$94,377.48, this general policy of soliciting bid proposals was ignored and the contracts were let without bid.

Since a study indicates that approximately 50% of the purchase orders issued involved \$50.00 or less, it is recommended that the Trustees establish certain limits under which purchases may be made directly, without competitive bidding, and that in no event should expenditures be made beyond the limits thus set, except by competitive bidding.

10. PAY ROLLS: For the year ending December 31, 1951, the monthly executive pay roll of the Railway amounted to \$926,933.58, which represented an increase in cost of \$16,712.62 over the preceding year.

It is worthy of comment that in 1946 this pay roll covered 117 executives at a monthly cost of \$64,658.01, and now in December 1951, when the passenger load of the Railway has dropped by more than 144,000,000 riders, that same pay roll includes ten additional executives and the net pay roll for December 1951 amounted to \$76,965.23.

The number of employees on the weekly pay roll as of December 28, 1951 was 8,062. By comparison with the weekly pay roll for December 27, 1946, there were 7,824 employees, representing an increase of 238 employees during a period when passenger riding had dropped off 34%.

11. FARE COLLECTIONS: The change in fares inaugurated on January 28, 1950 rendered inoperative the mechanical passimeters then in use at the various stations, and made it necessary to use fare boxes which required the presence of an attendant.

On December 13, 1950, the Trustees voted to adopt the token method of fare collection, and, at the same time, authorized expenditures of \$794,002.00 for the purchase of modern fare-collecting equipment, for tokens, and for machines for wrapping and counting tokens.

The Railway subsequently expended \$639,509.80 for fare boxes, passimeters, and new mechanisms for existing fare boxes, and \$85,800.17 for the purchase of metal tokens.

The token system was actually put in effect on November 10, 1951, and it is estimated that approximately 70% of the passengers entering the rapid transit stations now use tokens. As of December 31, 1951, there were 906,164 tokens in the hands of the riding public.

Attention is directed to the fact that all of the new fare boxes purchased will now register pennies in addition to nickels, dimes, and tokens. The inclusion of the penny register as well as the use of tokens will certainly facilitate fare collections in the event that a fare increase of less than five cents is contemplated by the Trustees.

12. RENTAL OF OFFICE SPACE: For the calendar year 1951, the Authority paid \$97,551.15 for the space now occupied by their general offices, and under the terms of the present lease, this rent will increase approximately 30%, which will bring the cost to approximately \$130,000.00 per annum.

It is worthy of comment that the 1953 and 1954 rental costs will be approximately 60% higher than the cost of the rent paid for the year 1949. Our previous audit report commented on this situation, as follows:

"In view of the fact that the Authority is now exempt from real estate taxes (Statute 1949, Chapter 572, Section 6), substantial savings could result from erection of a building to house the main offices of the Metropolitan Transit Authority."

The Authority immediately discounted this recommendation by stating that an adequate building for their purposes would cost approximately \$2,000,000.00. We have no knowledge of exactly how elaborate a structure the Trustees feel that they are entitled to; however, it is worthy of comment that for their general offices, at the present time, the MTA is renting 44,583 square feet, and in the 1948-49 year the Trustees erected an Engineering and Maintenance Building with usable office space totaling 16,361 square feet at a cost of slightly more than one-quarter million dollars. This Department sees no reason why an adequate building for MTA purposes could not be constructed for less than one million dollars, which certainly would be a justifiable capital outlay in view of the fact that their annual rental charges will soon reach \$130,000.00 per year.

13. AUTOMOBILES: As of December 31, 1951, the Railway owned and operated 48 passenger vehicles which were assigned to various executives and employees of the Railway. According to the accounts of the Authority, these cars were valued at \$78,452.01.

In registering 46 of these automobiles, the Authority indicated that their place of principal garaging would be Albany Street, Boston. On Friday, April 25, 1952 at 7:20 p.m. during the course of this audit, a spot check of the MTA facilities at Albany Street was conducted and only one of the 46 registered cars was found garaged there. Employees of the Authority stated that only one of the 46 cars was garaged there nightly, and that other cars were seen by them only when in need of repairs, and that most of these cars are being privately garaged by the personnel to whom they are assigned.

This Department does not believe that 48 cars are needed by the MTA. If the Authority considers its facilities to be adequate for the general public's use for transportation in and about Metropolitan Boston, then the same service should be adequate for their own personnel, and it is again recommended that a study be made to determine how many of these cars are actually needed. In any event, it is most unusual that a transportation system should incur the additional costs of providing their own personnel with private automobiles to carry them to and from their homes.

14. MAGAZINE "CO-OPERATION": The Authority publishes at irregular intervals a magazine called "Co-operation." During the year 1951, there were four issues of this magazine published at a cost of \$15,421.84, which cost is included in the cost of service.

Attention is again directed to the fact that this covers only the actual publishing costs, and the salaries and wages of the employees of the Railway who compile, edit and set up this magazine are not included.

A study of the magazine will demonstrate that it is used largely for advertising the doubtful accomplishments of the Trustees and officials of the Railway, and it is recommended that this publication be discontinued.

15. GASOLINE TAXES: During the year 1951, the Metropolitan Transit Authority paid State gasoline taxes in the amount of \$141,221.15. An amount of \$16,353.66 was paid for State diesel oil tax by the Authority.

With regard to the above, our previous audit report stated:

"It was noted that the Metropolitan Transit Authority pays to the Commonwealth approximately \$170,000.00 per year in gasoline taxes. When Chapter 572 of the Acts of 1949 was originally discussed, the Legislature refused to accept the section of the bill which provided exemption from gasoline taxes to the Metropolitan Transit Authority.

"It is recommended that this amendment be again offered to the Legislature for reconsideration. The Metropolitan Transit Authority is a public agency, operated by a political subdivision of the State, and further consideration should be given



the fact that of all the miles operated by the Metropolitan Transit Authority buses, only a fraction of such mileage is performed on State highways, for which the major part of the revenue from gasoline taxes is expended."

This Department feels quite strongly that the Metropolitan Transit Authority should be relieved from further payment of these taxes, and again recommends to the Legislature that the MTA be exempted from payment of the State gasoline tax and diesel oil tax.

**16. RETIREMENT BOARD:** This board was created originally as a result of an agreement between the Authority and the Amalgamated Union and has since been extended to cover other employees of the Railway.

The accounts of the Retirement Board were not examined during the course of this audit; however, it was noted that during the past three years the contributions of the MTA for such purposes have been as follows:

	<u>1949</u>	<u>1950</u>	<u>1951</u>
Retirement Fund	\$1,330,159 64	\$1,383,363 64	\$1,459,577 90
Paid Pensions to Former Employees	164,612 10	151,144 40	163,000 75
Health and Accident Insurance	72,348 65	71,171 99	82,915 28
Pension Plan Provided by Ch. 601, Acts of 1950. Applying to Disabled Veterans with Permanent Civil Service Status (Formerly City of Boston Employees)			1,884 55
	<u>\$1,567,120 39</u>	<u>\$1,605,680 03</u>	<u>\$1,707,378 48</u>

In addition to these expenditures, during the year 1951 the Authority for the first time paid Social Security taxes in the amount of \$429,629.72.

At the present time, there are three separate pension plans in existence:

(a) **Company Pension Plan:** This plan became effective on February 1, 1920. No contributions were required of or received from any employee, and the pension paid is based on the employee's age, length of service, and average earnings during the years of his employment. All employees receiving pensions during 1951 under this plan had retired prior to January 1, 1948, and for payment of pensions under this plan the Authority expended \$163,000.75 in 1951.

For the month of December 1951, the average pension paid to employees under this plan was \$52.57 per month, and this average is inflated by the inclusion of large pension allowances paid to former officials. Over 80% of the pensioners under this plan receive \$40.00 per month.

(b) **Retirement Allowance Plan:** This plan became effective on July 1, 1941 as a result of an agreement between the Railway and one of its larger unions, and included only employees of that particular union. Under its terms, those retiring after July 1, 1943 receive \$60.00 per month.

This plan was supported by assessments of \$2.00 per month upon the individual employee, which contribution was matched by the Railway. Assessments were collected by the Railway and turned over to the union, and on several occasions during the existence of this plan the assessment did not prove sufficient to meet costs, and additional assessments were made upon the employees which were again matched by the Railway. When the new Metropolitan Transit Authority Retirement Fund was created, this assessment on the employees and the contribution by the Railway were discontinued, and the costs of carrying on this plan have since been paid directly from the new Retirement Fund.

(c) **Metropolitan Transit Authority Retirement Fund:** The effective date of this Fund was January 1, 1948, and under it the Authority deducts 5% of each member's compensation and the Authority itself contributes 5%.

Administration of the fund and the responsibility of carrying out the provisions of the

rules is placed in a board of seven:

- Three members appointed by the Authority, at least one of whom shall be a public trustee,
- One member by Authority vote from members of the Fund who are not members of the Amalgamated,
- Two members designated by the Amalgamated,
- One honorary member elected by the six other members.

Under this plan, there is a normal retirement allowance and a disability retirement allowance, and for a member who has not reached his normal retirement age (65 years) but who has completed forty years' creditable service, there is provision for an early normal retirement allowance.

Retirement allowances under this plan are computed on the following basis:

Payments of the prior service allowance falling due on or after June 1, 1949 shall be equal each year to \$33 multiplied by the number of years of the member's prior service if his compensation on the effective date of the Fund was on an hourly or weekly basis; otherwise such payments shall be equal each year to 1.1 per centum of his compensation at the annual rate on January 1, 1948, multiplied by the number of years of his prior service.

On November 1, 1951 the Treasurer of the MTA retired, and on the basis of the paragraph included herein it is estimated that his retirement allowance exceeds \$11,000.00 per year. It is worthy of comment that, in order to obtain this retirement allowance, the Treasurer had contributed only \$3,541.63 to the retirement plan.

During the operation of the previously explained retirement allowance plan, the ordinary employee of the Authority was contributing \$2.00 per month towards this plan, plus any special assessments which became necessary. The now retired Treasurer did not contribute one penny to that plan, yet, when this new MTA retirement plan became operative, he and all the other officials of the Railway were included in its provisions.

Further preference is also given the executives in calculating the retirement allowances, since the prior service of an employee on the weekly pay roll is based on a \$33.00 allowance for each year of prior service, while those not on a weekly pay roll (the executives) are given an allowance equal to 1.1% of their compensation at their annual rate on January 1, 1948. This is an entirely unjustified preference which is given to officials of the Authority and results in ballooning their retirement pay.

It becomes immediately obvious that these executives -- and there are many others with long years of service not yet retired -- will in the future constitute a major drain upon the funds of the retirement system.

The rules governing calculation of retirement pay should be revised to provide an allowance of \$33.00 per year or 1.1% of the pay of all retiring employees whichever is greater.

**17. CONCESSIONS:** Our previous report called attention to the fact that during the year 1950 the Metropolitan Transit Authority derived income of \$1,042,849.19 from concessionaires with other than flat rental agreements, which would, therefore, require audit, and that of this total, MTA accountants had verified only \$101,590.42 and that payments made by concessionaires totaling \$941,258.77 were accepted by the Authority without audit of the concessionaires' accounts. At the time, the Trustees of the MTA refused to allow this Department to examine the accounts of the concessionaires, even though such audits are considered a normal part of our program in other State agencies. Apparently, as a result of that report, during the year 1951 the MTA accountants verified \$996,769.45 of income from concessionaires totaling \$1,010,610.27.

The fact that the Railway has verified this income in no way detracts from the fact that once again this Department was not permitted by the Authority to verify this income.

**18. POWER PLANTS:** In 1911 the Boston Elevated Railway Company, predecessor to the present Metropolitan Transit Authority, adopted a modern system of generating alternating current and converting to direct current at substations. At the present time, the Authority owns and operates two generating stations, one at South Boston and the other at Lincoln Wharf, and twenty substations. As of December 31, 1951, the Railway's investment in land, power plant buildings, equipment and transmission systems was valued at \$17,489,401.37.

During the winter season 1951-52, the peak load power requirement of the Metropolitan



Transit Authority system amounted to 75,000 kw, and the Authority had available, without taking into consideration the low pressure boilers at the South Boston Power Station, 95,000 kw of firm capacity, and, in addition, the MTA purchased energy from the Boston Edison Company for the operation of the Chelsea Division.

Under the agreement with the Boston Edison Company, dated December 30, 1948, which became effective October 1950, the MTA at times purchases power from the Edison Company, and similarly the Edison Company purchases from the Authority. During the year 1951, the Edison Company's purchases exceeded the MTA's by \$140,346.42.

19. CAMBRIDGE SUBWAY: The Cambridge Subway, originally constructed by the Boston Elevated Railway Company, was sold to the Commonwealth of Massachusetts in May 1920 in order to furnish the Railway with cash needed for rehabilitation of its physical properties at that time.

To provide funds for the purchase and also for the cost of subsequent improvements made, the Commonwealth has borrowed \$8,229,500.00. The following schedule summarizes the complete transactions:

Bond Issues of the Commonwealth:		
Cambridge Subway, 1920-1974	\$7,868,000 00	
Cambridge Subway Improvements, 1924-1974	96,000 00	
Cambridge Subway Station, 1932-1981	265,500 00	
Total Bond Issues		\$ 8,229,500 00
Interest on Bond Issues:		
Cambridge Subway	\$13,215,495 00	
Cambridge Subway Improvements	94,240 00	
Cambridge Subway Station	234,952 75	
Total Interest		13,544,687 75
Total Bond Issues and Interest		<u>\$21,774,187 75</u>
Deduct:		
Paid and Potential Rent Charges:		
Railway Payments through 1951	\$12,560,720 25	
Lessees Rents for Cambridge Subway Property through 1951	73,112 50	\$12,633,832 75
Balance due Commonwealth to Liquidate Principal and Interest		9,140,355 00*
		<u>\$21,774,187 75</u>

\* Balance due from Metropolitan Transit Authority subject to reduction for amounts received by Commonwealth for rents, tolls, etc., on Cambridge Subway property.

Under the provisions of Chapter 572 of the Acts of 1949, when the indebtedness of the MTA to the Commonwealth is finally liquidated, title to the Cambridge Subway will pass to the MTA.

20. BOSTON ELEVATED RAILWAY COMPANY - CAPITAL GAINS TAX: According to a report of The Revenue Agent, dated September 16, 1949, the over-all Capital Gains Tax levied against the Boston Elevated Railway Company was \$7,658,985.54.

A payment of \$6,177,796.50 was made against the amount levied, leaving an unpaid balance of \$1,481,189.04. The amount paid to date has been taken from the \$85.00 per share settlement made by the MTA at the time of public acquisition, and payment of the balance is being contested by the Boston Elevated Railway Company Receivers. It is anticipated that this matter will be litigated in the U. S. Tax Court in the autumn of 1952.

The cash position of the Boston Elevated Railway Company on December 31, 1951 was \$2,249,911.95 as shown in the receiver's report filed in Suffolk Superior Court (Equity #62687). With the exception of about \$60,000.00 in cash, the remainder has been converted into government securities.

When final settlement is arrived at with the Government, the remaining cash will be distributed to the stockholders.

## BOSTON METROPOLITAN DISTRICT

REPORT No. 52-58

Audit: The report of this examination is being issued in connection with a current audit of the Metropolitan Transit Authority which is now in progress and covers the period from January 1, 1951, the date of the previous audit, to December 31, 1951.

During this period, the Boston Metropolitan District issued bonds and a note totaling \$17,720,000.00.

The proceeds of four of the bond issues were used to purchase Metropolitan Transit Authority bonds totaling \$12,875,666.67.

Under Section 7A, Chapter 544 of the Acts of 1947, as amended, the District issued on March 1, 1951 \$1,844,000.00 coupon bonds, 1951 Series A bonds, bearing interest at 1 1/2% per annum, and maturing December 1, 1961-81. The proceeds of the issue were to be used for refinancing a portion of certain District obligations aggregating \$2,373,000.00, and maturing on various dates between March 1, 1951 and November 1, 1951 which would not be met by the application of the \$500,000.00 payment by the Metropolitan Transit Authority on June 1, 1951 in reduction of the principal amount of the \$71,418,371.89 bond of the Authority dated as of August 3, 1949, and held by the District.

Attention is also directed to the fact that on March 1, 1951 the District issued \$987,000.00 1951 Series B, \$825,000.00 1951 Series C and \$4,500,000.00 Series D coupon bonds, all due March 1, 1951-81, and bearing coupons at the rate of 1 1/2% per annum. These bonds which were sold at par, totaled \$6,312,000.00. With the proceeds of these issues the District purchased a \$986,666.67 bond of the Authority which was issued under the authority of Section 6 of Chapter 649 of the Acts of 1949 as amended. This purchase was for the purpose of refunding an unpaid \$1,000,000.00 bond of the Authority which had been issued April 15, 1950 for one year for the purpose of constructing and equipping an addition to the existing Tremont Street Subway provided for by Section 2 of said Chapter 649. The District also purchased at this time the \$825,000.00 bond of the Authority and the \$4,500,000.00 bond of the Authority, the first issued for the Washington Tunnel Extension, Preliminary Plans, and the second for East Boston Rapid Transit Subways Alterations. The Authority bonds pay interest in amounts equal to that payable by the District on its 1951 Bond Issues, Series A, B, C, and D.

In addition to the foregoing bonds the District, on March 1, 1951, issued \$6,564,000.00 1951 Series E bonds, due March 1952-81, bearing coupons payable at the rate of 1 1/2% per annum. These bonds were sold for \$6,650,992.69, which included a premium of \$86,992.69. With this amount the District purchased serial bonds of the Authority which bear interest at the rate of 1 1/2% and were issued to provide or to replace funds for the purchase of equipment.

Request for Temporary Loan by the Metropolitan Transit Authority: Attention is directed to the fact that a special meeting of the Trustees of the District was held on September 17, 1951 to consider a request of the Metropolitan Transit Authority that the District purchase \$3,000,000.00 temporary notes of the Authority to mature in not less than seven months, as authorized by Section 13 of Chapter 544 of the Acts of 1947 as amended. This meeting was adjourned to September 21, 1951 and four of the five trustees were simply recorded as being present.

At the adjourned meeting it was unanimously voted:

"Voted: That the Trustees of the Boston Metropolitan District deeming it in the interest of the District so to do, on October 1, 1951, or as soon thereafter as practicable, purchase as authorized by Section 13 of Chapter 544 of the Acts of 1947 as amended \$3,000,000.00 principal amount of temporary notes of the Metropolitan Transit Authority to be due May 1, 1952; and to bear the same rate of interest as the Notes of the District issued to provide funds for their purchase; provided that said purchase shall not be made until the District has on hand necessary funds from the issue and sale of its notes."

In order to provide funds for this purchase two bids were received from twenty-one banking companies circularized. The bids which were opened September 27, 1951 indicated that the National Shawmut Bank of Boston was the low bidder, with a par bid of 1.05%. This bid was accepted.

At a subsequent meeting of the Trustees held on December 18, 1951 a letter from the Metropolitan Transit Authority dated December 3, 1951 was presented requesting that there be purchased as authorized by the last paragraph of Section 13 of Chapter 544 of the Acts of 1947, as amended, temporary notes of the Authority, in the principal amount of \$2,000,000.00, to be dated February 1, 1952 to mature June 30, 1952. After a lengthy



discussion, it was voted that the Authority Chairman, the Treasurer-Comptroller, the General Counsel and the General Manager be requested to meet with the District Trustees on December 27, 1951. At this meeting which was accordingly held the financial statements of the Authority were presented, showing the present financial position of the Authority, results of its recent operations, and estimated results of operating, etc. to June 30, 1952. However on December 28, 1951 the Authority advised the District by letter that it was withdrawing the request for District purchases of \$2,000,000.00 short-term notes and indicated that its permanent financing, which had been contemplated for March 1952, would be advanced in date.

In January 1952 the MTA did receive in cash from permanent financing a sum in excess of \$2,000,000.00. Despite receipt of this cash the MTA Trustees found it almost immediately necessary to reverse their decision of December 28, 1951 and again ask the District to provide an additional \$2,000,000.00 in cash from a temporary note to become due on May 1, 1952.

The wavering policies and contradictory actions of the MTA Trustees in dealing with such a substantial sum are difficult to justify.

The Railway has now reported a deficit from 1951 operations amounting to \$5,315,084.20. That deficit will probably be paid to the Railway by the State Treasurer during April 1952 and almost immediately \$5,000,000.00 of the cash thus received must be paid to the District to cover temporary notes due May 1, 1952. The inevitable result will be that the Railway will return within the next few months to the District seeking further temporary borrowings for operating purposes.

It is obvious from an examination of the recent cash position of the Railway that additional funds were necessary to continue operations; however, the General Manager of the Railway, in statements made to the Trustees of the District, sought to absolve the MTA Trustees of all responsibility for the impairment of the cash of the Railway and attributed current cash difficulties of the road exclusively to "falling off of riders plus increased labor costs . . .", and in addition he specifically denied that expenditures for capital improvements had any effect on the cash position of the Railway.

The contentions of the General Manager are not based on fact. It is true that decreased riding and increased costs did contribute to the poor cash position of the Railway, but the MTA Trustees have aggravated their cash difficulties by spending monies for capital improvements which a provident management would have limited to necessary and essential items within the financial means of the road.

In the first seven months of 1951 the Railway reserved \$700,000.00 to provide for capital expenditures, and in that same period the Railway spent \$1,413,000.00 on capital items. Apparently in defense of this extravagance the General Manager stated to the BMD Trustees:

"... in both 1949 and 1950 the net capital expenditures of the M. T. A. had been less than the depreciation charge in the cost of service...."

This statement is misleading. In the combined years of 1949 and 1950 the capital expenditures of the Railway were within \$50,000.00 of the amount actually reserved, and this comparatively small balance certainly provided no justification to the MTA Trustees who in the first seven months of 1951 ordered more than \$4,000,000.00 expended on capital items.

The minutes of meetings of the BMD Trustees give understandable evidence of their reluctance to accede to these temporary borrowings of the MTA Trustees, and it is also clear, from the same minutes, that their approval, when finally given, was based solely on the fact that, regardless of cause, the Railway did need the cash, and use of the excellent credit of the District instead of compelling the MTA to do its own borrowing, would assure a lower rate of interest on these borrowings with a consequent savings to the taxpayers of the MTA area.

**Receipts Under Rapid Transit Bond:** On November 20, 1951 the District received the second installment of \$536,259.27 under the terms of the \$40,219,445.43 Rapid Transit Bond of the Authority held by the District. Amounts received in reduction of the principal amount of the aforesaid bond of the Authority are kept in a separate account to meet payments required on the District's Rapid Transit Bonds and, pending such use, may be invested as provided in Section 11 of Chapter 383 of the Acts of 1929. United States Treasury Bills totaling \$536,000.00 due February 28, 1952, were purchased on November 29, 1951 for \$533,825.20 and on December 27, 1951, United States Treasury Bills totaling \$238,000.00 due March 27, 1952 were purchased for \$236,881.68. As of December 31, 1951 a total of \$770,706.88 was invested in United States Treasury Bills and \$4,140.01

uninvested balance was on deposit in the National Shawmut Bank of Boston, making a total of \$774,846.89 in this fund. The profit from investment of all or any part of the fund will be paid over to the Metropolitan Transit Authority and in that connection \$3,519.65 was paid over to the Authority during the 1951 calendar year.

**Purchase of Safe:** At a meeting of the Trustees which was held April 4, 1951, it was voted that the Treasurer purchase a safe or vault at an amount not to exceed \$1,200.00. To the date of the inception of this audit on January 25, 1952, this purchase had not been made and the books and records are still being filed in a cabinet which is not fireproof. It is suggested that the vote of the Trustees be complied with forthwith.

#### TRANSIT MUTUAL INSURANCE COMPANY

REPORT No. 52-74

**Distribution of Surplus:** The affairs of the Transit Mutual Insurance Company are directly connected with operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority have received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company, and in addition, it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance at regular meetings of the Insurance Company. The only income producing policy written for workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the Company to be policyholders as required in the bylaws, and these latter policies are re-insured with another company.

**Reinsurance:** Under a "Reinsurance Agreement" which became effective April 1, 1949, this Company was reinsured on losses between \$25,000.00 and \$500,000.00 for any one accident or series of accidents arising out of any one event. Effective November 15, 1950 the coverage under this reinsurance agreement with the Peerless Casualty Company was changed by endorsement to \$50,000.00 up to \$500,000.00.

Prior to 1951 the total premium for this reinsurance was 1/2 of 1% of the net premiums written. Effective January 1, 1951 the total premium was increased to 2% of the net premiums written. Statutory increases in benefits under the Workmen's Compensation Act were apparently factors in this increase of the rate.

**Lease Agreement:** As of January 1, 1951, the yearly rent of the premises at the Park Square Building occupied by the Transit Mutual Insurance Company was increased from \$2,108.00 to \$2,810.00. The rent for 1952 was again increased to \$3,300.00 as per lease agreement dated November 5, 1951 between the Sheraton Buildings Inc. and the Transit Mutual Insurance Company.

**Department of Insurance Triennial Audit Report:** The audit report made of this company for the three years ending December 31, 1950 by the State Insurance Commissioner was examined and the following comments which were therein included were noted:

- (a) That the Reserve for Losses should include provisions for claims incurred but not reported and for claims which might be reopened.
- (b) That a Reserve for Loss Adjustment Expense should be provided.

In this connection it was noted that the foregoing two items were provided in the statements for the year ending December 31, 1951.

The total of the Reserve for Workmen's Compensation Losses at December 31, 1951 consists of the following:

Loss Reserve (Case Basis)	\$303,550 58
Excess Loss Reserve	26,664 56
Reserve for Loss Adjustment Expense	<u>2,500 00</u>
Total	<u>\$332,715 14</u>

**Future Dividends:** It was noted that the Surplus as regarding Policyholders totaled \$194,671.77 on December 31, 1951. This amount represents an increase of \$29,169.48 over that indicated at the close of the previous year. On this basis it would seem that dividends declared in 1952 should be substantially greater than those declared during the past three years.



NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND  
NANTUCKET STEAMSHIP AUTHORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operation of the project. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws."

A complete report of an audit of the accounts of the New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority for the calendar year ending December 31, 1951 was issued on June 6, 1952.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant-Governor, the President of the Senate, the Speaker of the House, the State Librarian, and the Senators, Representatives and officials of the cities and towns of the area served by the Authority and the members and officials of the Authority.

The following comments, exceptions and recommendations were included in the report issued in connection with this examination:

1. Annual Report: The New Bedford, Woods Hole, Martha's Vineyard and Nantucket Steamship Authority is a public agency created by the legislature for the prime purpose of supplying adequate transportation to a specified section of the Commonwealth.

Two separate statements made by the Trustees of the Authority in their Fourth Annual Report give graphic evidence of a basic misconception on their part of the purposes of the agency.

They state in that report:

"... the bondholders, who are the real owners of the Authority and its facilities (a fact frequently lost sight of) ..."

This is not the fact. In final analysis, the ownership of the Authority is public, and while the bondholders have a primary claim against the Authority, should the Authority fail to meet these claims, the taxpayers, of the localities cited, are responsible. The bondholders are more than adequately protected under the statute, and the first obligation of the Trustees, therefore, is to the taxpayer.

In the same report the Trustees state:

"... It is argued that economic hardship follows to any community whose terminal is closed, as if the primary purpose of the Authority and the intent of the Legislature in creating it were to assure the economic status quo of each community served by it when the Authority took over the line. The majority of the Authority feels that this argument is without merit and absolutely insusceptible of proof. ..."

This opinion of the Trustees is certainly contrary to the basic purpose for which the General Court has created this Authority. No other justification for a public agency, such as the Nantucket Steamship Authority, could exist other than to preserve and maintain the economic status of the area which it serves.

For Public Trustees to argue that their basic responsibility is to bondholders, and that they have no interest in the economy of the area they serve, is most illogical.

2. Deficit - 1951: For the calendar year 1951 the Authority reported an operating deficit of \$166,476.44, while in reality the net cost of service totaled \$276,476.44, the extra \$110,000.00 arising from the cost of bonds that were retired during the year.

The Authority's continuing financial difficulties partly stem from the excessive price originally paid for the assets of the Massachusetts Steamship Company and the substantial sums immediately required to put these newly acquired assets into operating condition. This same factor will continue in the future to adversely affect the financial operations of the Authority, since the inflated value at which the assets of the Authority are carried result in excessive depreciation charges to the cost of service.

The Authority is approaching the point where reserves created originally to cover the cost of deficit operations are reaching depletion. More than \$300,000.00 in these reserves have been used in the past two years, and a continuance of deficits at the present rate will erase the remaining balance in the present reserve and could result in actual deficit assessments in 1953.

The Authority undeniably finds itself in a predicament. Any large deficit would be reflected exorbitantly in the tax rate of the islands, but it would seem that there would be other ways of attracting revenue than be arbitrarily setting up excessive rates for the transportation of commodities which are economic necessities to inhabitants of the islands.

3. Freight Rates: During the latter part of 1951, substantially higher freight rates were adopted by the Authority; however, this increase came into effect too late in the year to be of any value to the Authority in reducing that years cost of service. These increases generally were as follows:

14 1/2 %	from Woods Hole to Vineyard Haven
20%	from Woods Hole to Nantucket
	from New Bedford to Vineyard Haven:
35.5%	for class rate shipments
26%	for commodity shipments
	from New Bedford to Nantucket:
35.4%	for class rate shipments
28%	for commodity shipments



These new rates are excessive and, since they are based on the supposed financial needs of the Authority, they do not represent the actual normal cost of transporting goods but in addition include extra costs which arise from the inflated condition of the assets of the Authority.

It is quite fortunate for the Authority that under existing statutes they maintain a virtual monopoly for transportation between the mainland and the islands, because if other means of transportation were available the Authority, under these new rates, would certainly lose a major part of its business.

While it is true that the Authority handles little or no coal, the fact still remains that under these new rates it would cost more per ton to ship coal from New Bedford to Nantucket, or even from Woods Hole to Nantucket, than to ship a ton of coal from England to Boston, while a cement block that costs twenty-two cents or less to purchase on the mainland now costs an additional twenty-nine cents to ship from Woods Hole to Nantucket.

Existing statutes forbid any competition operating a vessel with a carrying capacity of over one hundred tons. One competitor, who does meet the provisions of this law, is already in competition with the Authority; and should the present rates be allowed to continue, it is fair to assume others may enter the field with resultant ruinous effect upon the Authority and the islands.

These new rates have apparently been based on what the Trustees deem to be the income needs of the Authority, and little or no consideration has been given to their ultimate effect on the economic life of the islands. A study of the rates will reveal that no preference has been given to the necessities of life as opposed to what might be termed luxuries, and it is certain that an indefinite continuance of these rates will undermine the economic structure of the islands by adding exorbitantly to the cost of every commodity used, and will inevitably result in competition which will undermine the financial structure of the Authority itself.

It is obvious that the Trustees find themselves on the horns of a dilemma, but it is also doubtful that they have produced a solution by spending the cash of the Authority to erect extra facilities at Woods Hole, or by raising their freight rates to a point which will inevitably invite competition.

It is the opinion of this Department that the Authority should attempt to increase their freight business in the winter months, and it is suggested that a preferential rate should be established to encourage the shipment of lumber, cement, cement blocks, and other such bulk items during the winter months.

The Authority could also consider the possibility of establishing preferential rates for the transportation of automobiles on their poorly patronized runs.

In any event the Trustees should operate the Authority economically and under a reasonable income structure and with some regard for the economy of the area served.

4. New Bedford Terminal: The emergency preamble which accompanied Chapter 544 of the Acts of 1948, the statute which created this Authority, states that the purpose of the Act is --

"... to provide without delay adequate transportation facilities between New Bedford, Falmouth and the islands of Martha's Vineyard and Nantucket, ..."

Despite the unmistakable intent of this preamble by inclusion of New Bedford within the area in which the Authority is to provide "adequate transportation", apparently without legal advice and despite the fact that the statute requires that New Bedford contribute 15% of any deficit that might result from operations, the Trustees have given clear indication of their intent to reduce or eliminate service to New Bedford.

- (a) On November 29, 1951 the Trustees voted to close the New Bedford terminal to all freight, automobile and passenger traffic from January 2, 1952 to April 26, 1952. Enforcement of this order was later suspended as a result of legal action.
- (b) Sums totaling in excess of \$190,000.00 have been expended by the Authority to erect new terminal facilities at Woods Hole, which are, in effect, a duplication of facilities already available and owned by the Authority in New Bedford.
- (c) During the latter part of 1951, new freight rates were adopted by the Authority which set up differentials which have raised the cost of shipping from New Bedford to a point approximately 20% higher than shipments from Woods Hole.

The trustees are far in excess of their authority in adopting a policy which certainly will cause serious economic dislocations to New Bedford should that terminal be closed, and certainly action of this type should be initiated only after existing statutes are amended to remove the City of New Bedford as a contributor to the Authority's deficits. It also naturally follows that the substantial expenditures made by the Trustees at Woods Hole are ill-advised in view of the fact that serious doubt exists as to whether the Authority acting by itself has the right to completely abandon or even shut down for a period of months the existing facilities at New Bedford.

The freight differential that has been created between New Bedford and Woods Hole has but a small relation to the actual cost of transporting freight and is obviously based on a plan to divert more and more freight shipments from New Bedford.

To sum up: the Trustees' differential will not, of itself, add one ton to the present volume of freight carried by the Authority, since it will only encourage shippers to transfer their shipping point, and in order to handle this transferred business the Authority has expended \$193,967.76 to create a new freight terminal at Woods Hole.

5. Competition: During the year 1951 there were in operation two water-borne competitors to the Authority, one carrying passengers and the other freight. The passenger service operates from Hyannis to Nantucket, while the freight carrier operates from various points in Massachusetts to Martha's Vineyard and Nantucket.

In addition, airline operations take considerable revenue from the Authority. It was revealed by the airline carrier that for the 1951 year the following number of passengers were carried:

Boston to Martha's Vineyard	1,237
Boston to Nantucket	6,103
New Bedford to Martha's Vineyard	518
New Bedford to Nantucket	2,365

6. Depreciation: It was noted that depreciation expenses of the Authority for the year 1951 amounted to \$177,391.08, a substantial increase over 1950.

Attention is again directed to the fact that the Authority originally paid \$1,520,000.00 for assets of its predecessor which had a net book value of \$457,441.83. Since acquisition the Authority has spent an additional \$2,500,000.00 in the purchase of new assets and in the improvement of the assets originally acquired.

It is again recommended to the Authority that future depreciation charges be based solely on the actual worth of the asset being depreciated.

Charges in 1951 increased over 1950 in the following items:

	1950	1951
Floating Equipment	\$ 86,216 83	\$104,807 79
Buildings and Structures	57,153 19	67,186 13
Office and Terminal Equipment	4,498 46	4,864 48
Motor Vehicles	532 68	532 68
	<u>\$148,401 16</u>	<u>\$177,391 08</u>

7. Capital and Maintenance Expenditures: The previous audit report commented on the fact that the deficit for the year 1950 was considerably enlarged by maintenance charges made by the Authority which should have been capitalized. This same condition existed in 1951 but not to the extent of the prior year.

The following tabulation shows the capital additions and maintenance expenditures during 1951:

	Capital Additions	Maintenance Expenditures
Floating Equipment:		
S. S. Nantucket	-	\$ 43,881 17
S. S. Martha's Vineyard	-	78,816 18
M. V. Islander	\$49,346 00	30,081 92
	<u>\$49,346 00</u>	<u>\$152,779 27</u>



## Buildings and Structures:

New Bedford	-	\$14,307 47
Woods Hole	\$153,784 22	18,803 22
Vineyard Haven	2,979 50	2,044 74
Oak Bluffs	-	2,213 00
Nantucket	-	2,149 08
	<u>\$156,763 72</u>	<u>\$39,517 51</u>

## Land:

Woods Hole	\$19,127 55
Vineyard Haven	13,593 61
	<u>\$32,721 16</u>

## Office and Terminal Equipment:

New Bedford	\$1,455 88	
Woods Hole	1,489 57	
Vineyard Haven	325 00	
Oak Bluffs	52 50	
	<u>\$3,322 95</u>	<u>\$13,384 14*</u>
	<u>\$242,153 83</u>	<u>\$205,680 92</u>

\* For all stations

The Interstate Commerce Commission provides regulations which govern the ordinary carrier in the maintenance of their accounts. This Authority rigidly adheres to these instructions, and as a result many items of expense which could, under accepted accounting standards, be capitalized, have instead been charged to maintenance and are directly reflected in the 1951 deficit.

Some of these items are:

- (a) Furnishing necessary labor and materials to remove and renew deck plating in the main deck of the S. S. MARTHA'S VINEYARD at a cost of \$7,907.25.
- (b) Certain items installed on the ISLANDER, such as, an A. C. Distribution Panel in Engine Room, Battery Charging Receptacle, and Grill Receptacle at an approximate cost of \$2,000.00.
- (c) Building a retaining wall and new wharf approach at the Vineyard Line Wharf in New Bedford at a cost of \$5,094.33.

These three items alone have added more than \$15,000.00 to the 1951 deficit.

The Nantucket Steamship Authority as a public agency should seek legal advice as to whether or not they are bound by I. C. C. regulations particularly when these regulations add directly to deficits which are gradually erasing their reserves and thereby hastening the day when deficits will be assessed on the taxpayers.

8. General Expenses: An increase of \$30,564.42 was noted in general expenses of the Authority for the year 1951 and consulting services used to study tariffs accounted for more than \$17,000.00 of this increase.

That portion of the pay roll charged to "General Expense" also showed an increase, and it is pointed out that while a general ten cents per hour pay raise was granted to union employees beginning April 15, 1951, non-union employees whose wages are fixed by the Authority, were granted increases ranging from \$250.00 per year for office clerks to \$2,000.00 per year for executives of the company. Including this increase, two of these executives have now been granted pay raises totaling \$4,500.00 since July 1, 1950 and now receive \$12,000.00 per year.

9. Purchase of Land at Woods Hole: In 1951 the Authority purchased 33,823 square feet of land at Woods Hole in order to provide 11,000 square feet to be used as part of a new road from Route 28 to Woods Hole, to relieve congestion near the ferry slip. The road is to be built by the State Department of Public Works. In this connection it must be noted that the Authority has purchased more than 33,000 square feet of land, while only 11,000 square feet were needed. The remaining 22,000 has no value to the Authority unless further substantial sums are expended for grading.

10. Plans for Bridge at Woods Hole: An entry in the minutes of the Authority dated April 23, 1951 referred to a bill submitted by an engineering company for \$3,000.00 as a down payment on a total fee of \$9,000.00 for preliminary work on design of a bridge at Woods Hole to be built by the Public Works Department of the Commonwealth. The entry further states that no action would be taken on the bill pending receipt of advice as to the probability of the construction of the bridge by the Commonwealth. It would seem that the exercise of prudent judgment upon the part of the Authority would require it to ascertain that fact before engaging an engineering firm to undertake this preliminary work.

It is also most unusual for the Department of Public Works to allow any outside agency to provide plans for their construction. The Authority should forward this bill to the Department of Public Works for payment.

11. Purchase of Land at Vineyard Haven: On November 29, 1951 the Authority voted to purchase a parcel of land north of the ferry slip at Vineyard Haven for \$12,500.00. The Chairman of the Authority recommended its purchase in order that a building suitable for the convenient handling of freight and passengers might be erected by October 1, 1952 and also so that the Oak Bluffs terminal could be closed for the winter season as of that day.

In this connection the following letter is quoted:

Stone & Webster Engineering Corporation  
49 Federal Street, Boston 7

August 6, 1951

Mr. Frank B. Look  
Treasurer  
The New Bedford, Woods Hole, Martha's  
Vineyard and Nantucket Steamship Authority  
P. O. Box 284, Pier 9  
New Bedford, Massachusetts

Dear Sir:

Proposed Purchase of Land  
at Vineyard Haven

We have been asked for our opinion as to the proposed purchase from Lone Building, Inc. of a certain tract of land which is adjacent to land now owned and used by the Authority at Vineyard Haven.

According to the description submitted with the proposal, the area is in the form of an irregular quadrangular strip of an average width of about 50 ft. and an average length of roughly 160 ft.

The Authority, in its recent construction of a new bulkhead, has already encroached on this area for a length of perhaps 35 ft. by roughly 5 ft. in width, as it appears from drawings supplied to us.

The land is offered at a price of \$8,600.00 but with a certain important provision 'that the seller may reserve for the benefit of its abutting property an easement to place and maintain cesspools and pipes leading thereto in a strip of the land being purchased 65 ft. wide along the westerly boundry and to have access to said strip from such abutting property for all proper purposes in connection therewith.

Without the foregoing reservation, the land is offered at a price of \$12,500. From our inquiries at Vineyard Haven, we believe the price of \$8,600. without the restriction would be in harmony with another purchase made recently by the Authority, and reasonable. The higher figure appears to us definitely excessive.

In any event, there appears to be no present need for this tract. Because of its location there might be a need for it at some time in the future but we do not believe that its purchase by the Authority would be advisable at this time, even at a reasonable price.

We do wish to point out, however, that the bulkhead encroachment has the effect of



producing a jog in the property line adjacent to the pier approach. It is assumed that Lane Building, Inc. will be entitled to some settlement for the encroachment and, in this connection, that the jog could be removed by the purchase of a narrow triangle about 140 ft. in length with a base of perhaps 5 ft. running to a point at the southwesterly corner of the strip.

We recommend that the proposed purchase of the Lane Building tract be not made at this time but that the purchase of the small triangle be seriously considered in connection with any settlement for the encroachment.

Yours very truly,

/s/ W. V. Burnell,  
Vice President.

It appears from the foregoing letter that the Authority having encroached upon this private land, was at a disadvantage in this transaction, and no explanation of this encroachment has been offered by the Authority.

It is also worthy of comment that the Authority, after having hired and paid a consultant to advise them on this matter ignored the recommendation of the consultant and purchased the land for \$12,500.00.

12. Surplus Accounts: It was noted that the general ledger of this agency included the following two accounts as of January 1, 1951:

Earned Surplus - Unappropriated	\$116,995 06
Earned Surplus - Appropriated	7,222 05
	<u>\$124,217 11</u>

In this connection, attention is called to the following part of Section 9 of Chapter 544 of the Acts of 1948:

"Whenever the income of the Authority is insufficient to meet the cost of the service, as defined in section five, the reserve fund shall be used as far as necessary to make up the deficiency."

In spite of the foregoing, the deficit for the 1951 year in the amount of \$166,476.44 was charged in its entirety to the "Earned Surplus - Unappropriated" account, thereby creating in it a deficit of \$49,481.38 while the Reserve account was not disturbed.

It was further noted that the balance of the "Earned Surplus - Appropriated" account was increased during the period under audit to \$12,961.30. To this account is apparently added only the income from fund investments. This account also was left undisturbed.

No reason can be seen why these transactions were not handled in accordance with simple accounting procedures, taking into consideration the intent of the statute which obviously suggests that the reserve be used to make up the deficiency.

It is, therefore, recommended that the accounts be adjusted so that the cost of service will be charged to two surplus accounts so that they will be entirely liquidated, and the remaining balance of the cost of service be used to reduce the reserve.

13. Replacement Fund: Paragraph C of Section 404 of the Bond Resolution provides for the withdrawal of moneys from the Revenue Fund and the transfer of the same to the credit of the so-called "Replacement Fund" after prior transfers have been made into the Operations and Sinking Funds. Section 407 of the Bond Resolution provides that such moneys "shall be held in trust and applied only for the replacement of property depreciated or becoming obsolescent or sold, destroyed or damaged, as set forth in the Annual Budget". The balance in the Replacement Fund at December 31, 1949 was \$35,000.00. The balance at December 31, 1951 was \$119,850.97, and during a period of two years only \$352.50 has been expended from this fund.

Upon inquiry it was explained that it was the intention of the Authority to use the fund to replace only items that would ordinarily constitute a capital charge, such as, worn-out machines, office equipment and motor vehicles, and to replace the roof on the terminal building and mail truck now used at New Bedford. It is also expected that this fund will eventually provide a reserve to replace even a steamer or other substantial capital assets that might be destroyed by storm or catastrophe.

An examination of expenditures made during the 1951 year disclosed some expenditures for certain items that could have been charged to the Replacement Fund instead of Maintenance Expense.

It was noted that money held by the banks in the Replacement Fund drew no interest during the 1951 year. This money is now invested in ninety-day United States discount notes.

14. Accounts Receivable: As was noted in prior audits, an amount outstanding from a concessionaire since 1949 had not been paid. The collection of this item is now in the hands of an attorney and the amount outstanding is now \$427.98.





